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GUIDE TO THE REGIONAL PUBLIC ACCOUNTS
Methodological and operational aspects of the
construction of the consolidated public accounts at the
regional level

WORKSHOP PROCEEDINGS



Ministero dello Sviluppo Economico
Dipartimento per le Politiche di Sviluppo
Unità di Valutazione degli investimenti Pubblici



The Public Investment Evaluation Unit (UVAL – *Unità di valutazione degli investimenti pubblici*) provides technical support to government bodies by preparing and disseminating methods for evaluating public investment programs and projects before, during and after the projects themselves, in part to optimize the use of EU Structural Funds. The unit is a part of the network of central and regional evaluation teams.

UVAL operates within the Department for Development Policies of the Ministry for Economic Development, to which it was transferred by decree of the Prime Minister on 28 June 2007, as published in the Gazzetta Ufficiale on 19 September 2007. The unit received its current structure in 1998 as part of the reorganization of the development promotion functions, which were previously assigned to the Ministry for the Economy and Finance.

UVAL is comprised of no more than 30 members, which are coordinated both by the head of the unit and, in part, by the Public Investment Technical Evaluation and Verification Team, which reports directly to the head of the Department. The unit determines whether investment programs and projects comply with economic policy guidelines, assesses the financial and economic feasibility of the initiatives, and determines whether they are compatible and appropriate as compared with other solutions, while also evaluating their social and economic impact in the areas concerned.

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**Guide to the Regional Public Accounts – Methodological and operational aspects
of the construction of the consolidated public accounts at the regional level
Workshop proceedings**

Abstract

The publication contains the reports and addresses given at the presentation of the *Guide to the Regional Public Accounts – Methodological and operational aspects of the construction of the consolidated public accounts at the regional level*, contained in the CD-ROM attached to this volume. The *Guide*, together with the accompanying volume of analytical material, provides a comprehensive reconstruction of the goals, methods and choices underlying the construction of the Regional Public Accounts (RPAs), a database containing information on the current and capital account revenues and expenditure of government entities in the individual regions of Italy. The *Guide* is the product of a effort of reflection, methodological development, organisation and tool creation, a process that took place over the course of more than ten years. It is founded on constant interaction between the Central RPA Team, which works out of the Public Investment Evaluation Unit, and the 21 Regional Teams of the RPA network, as well as with universities, research institutes, individual scholars and other government bodies. The presentation of the *Guide*, which was held in Rome in July 2007, involved the participation of the suppliers, producers and users of the RPAs and offered an occasion to assess the potential, the limitations and the prospects for enhancing the usability of the information provided by the consolidated regional accounts. The RPAs, which enable the measurement of Italian public expenditure and revenue flows at the territorial level, support more informed planning decisions at the national and regional levels. They offer quantitative answers and opportunities for analysis of many aspects of the theoretical debate on regional development policy. The RPAs can also be used to monitor policy objectives, investigate changes in the management of specific sectors of intervention, track the federal reforms of government, acquire a greater understanding of local markets and periodically assess the role played by the EU Structural Funds in the Italian regions receiving such financing.

**Guida ai Conti Pubblici Territoriali (CPT) – Aspetti metodologici e operativi per la
costruzione di conti consolidati di finanza pubblica a livello regionale
Atti del seminario di presentazione**

Sommario

Il volume raccoglie le relazioni e gli interventi proposti per la presentazione della *Guida ai Conti Pubblici Territoriali (CPT) – Aspetti metodologici e operativi per la costruzione di conti consolidati di finanza pubblica a livello regionale*, contenuta nel CD-ROM allegato alla presente pubblicazione. La *Guida* è, con il volume dedicato ai suoi *Approfondimenti*, uno strumento che ricostruisce organicamente obiettivi, metodi e scelte sottostanti la costruzione dei CPT, banca dati sul complesso delle entrate e delle spese (correnti e in conto capitale) delle amministrazioni pubbliche nelle singole regioni italiane. La *Guida* è il frutto di un lavoro di riflessione, di elaborazione metodologica, di sistematizzazione di assetti e strumenti avvenuta nel corso di più di dieci anni e basato sulla interazione continua del Nucleo Centrale CPT, che opera presso l'Unità di valutazione degli investimenti pubblici, con i 21 Nuclei regionali della Rete CPT e con istituti di ricerca, università, singoli studiosi e altre Amministrazioni Pubbliche. L'evento di presentazione, tenutosi a Roma nel Luglio 2007, ha visto la partecipazione di fornitori, produttori e utilizzatori dei Conti Pubblici Territoriali e ha permesso di approfondirne potenzialità, limiti e prospettive per una sempre migliore utilizzabilità delle informazioni contenute nei conti consolidati regionali. I CPT consentono di misurare territorialmente i flussi finanziari pubblici italiani e sostengono scelte di programmazione più informate e consapevoli a livello nazionale e regionale, offrendo risposte quantitative e possibilità di analisi per i molteplici aspetti del dibattito teorico sulla politica di sviluppo economico territoriale. È infatti possibile, attraverso essi, monitorare obiettivi di *policy*, indagare le trasformazioni nella gestione di specifici settori di intervento, seguire le riforme federali dello Stato, conoscere i mercati locali e verificare periodicamente il ruolo svolto dai Fondi Strutturali comunitari nelle regioni italiane interessate da tali finanziamenti.

The workshop to present the Guide to the Regional Public Accounts (RPAs) – Methodological and operational aspects of the construction of the consolidated public accounts at the regional level, organised by the Public Investment Evaluation Unit, was held in Rome on 12 July 2007.

The event included the following speakers: Mariella Volpe, Public Investment Evaluation Unit (UVAL); Maria Teresa Salvemini, University of Rome “La Sapienza” - Europrogetti e Finanza; Giorgio Macciotta, member of the board at CNEL; Francesco Pigliaru, University of Cagliari; and Carlo Sappino, Head of the Department for Development Policies.

Other contributors included: Giovanni D’Amico, Council for the Budget for the Region of Abruzzo; Angela Nicolace, RPA Regional Team – Region of Calabria; Alessandra Staderini, the Bank of Italy; Elide Marelli, RPA Regional Team – Region of Lombardy; Maria Silvestrelli, National Research Council (CNR); Elvira Pisani, RPA Regional Team – Region of Tuscany.

Simona De Luca and Alessandra Tancredi prepared the foreword to this volume and edited the final version of the text.

We would also like to thank Franca Acquaviva for her help in composing the texts and her ongoing support, Alessandro Arrigo for the graphic design, and Studiare Sviluppo for their help in organising the presentation event and for their support in publishing the Guide.

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I. Foreword

This volume is a collection of the addresses and reports given in conjunction with the presentation of the *Guide to the Regional Public Accounts (RPAs) – Methodological and operational aspects of the construction of the consolidated public accounts at the regional level*, which is included on the CD-ROM provided together with this publication. The event was organised by the Public Investment Evaluation Unit (UVAL) on 12 July 2007 in order to present the information resources provided by the RPA database to a broader public, while also receiving feedback and suggestions in order to continue refining the use of the information contained in the consolidated regional accounts.

This brief foreword provides an overview of the structure and content of the *Guide* and describes the characteristics of the Regional Public Accounts so as to provide a framework to enhance the reader's understanding of the material presented here.

The *Guide* is intended to be a comprehensive, complete tool that provides an in-depth examination of the objectives, methods, and criteria adopted for the RPAs, the database of the financial flows (revenues and expenditure on current and capital account) of general government entities in the various regions of Italy. The current version of the *Guide* is an updated extension of the 2000 edition, with an abridged version in English for international users.¹

The *Guide* is intended for a wide variety of users. It targets the network of RPA Regional Teams (the generators of the data) in order to ensure the consistent application of proper criteria and methods; but it also targets all users of the data who, in order to ensure that the data is used properly, need a full overview of the methodology followed in order to be able to analyse the data extracted from the database and to take advantage of its extensive potential, as well as to be fully aware of the limitations resulting from the nature of the data, the sources used, and the methodologies adopted. The publication is organised into two volumes: the *Guide* and *Approfondimenti* (additional analysis)². The former provides a summary of the methods adopted, the classification criteria applied, a detail of the entities surveyed, the main uses and definitions of the data, and the project's organisation and management. The *Approfondimenti*, in turn, offers in-depth analysis of many of the issues covered in the general portion of the *Guide*, including:

¹ See Progetto Conti Pubblici Territoriali, *Guida metodologica per la costruzione di conti consolidati della finanza pubblica a livello regionale*, Ministero dell'Economia e delle Finanze (2000).

² An abridged English version of the *Guide* is available. *Approfondimenti* is available only in Italian.

classification and coding criteria; methods of regionalising the financial data; and reconciliations with the various national and international accounting systems.

The content of the *Guide to the Regional Public Accounts (RPAs) – Methodological and operational aspects of the construction of the consolidated public accounts at the regional level* is organised as follows.

Chapter 1, Why the Regional Public Accounts?, presents an overview of the Regional Public Accounts as the outcome of a project that filled a longstanding need for information in order measure public financial flows at the regional level in Italy, thereby making more informed programming possible and taking a prominent place in the theoretical debate and the international landscape. The historical background of the project (**section 1.1**) helps the reader to understand the many product and process innovations that, through a series of incremental approximations, led to the current version of the database (**section 1.2**). Today, the RPAs provide information, with a 12-18 month lag, on overall current and capital expenditure and revenues for the public sector in the individual regions, which can be flexibly organised into a wide range of subsets: macro-area and administrative regions; sector; economic category; public spending definitions; and expenditure entities. The Regional Public Accounts are generated by a federated network of 22 Teams in each Italian region, which are coordinated by the Public Investment Evaluation Unit of the Department for Development Policies. This is not only a physical network, but is also, and above all, a network of shared methods, supported by a Performance Reserve designed to provide additional resources to enhance the quality and timeliness of the data collection process (**section 1.3** and **Approfondimenti I.1**). Thanks to the consolidation of the methods used and the robustness achieved within the network of RPA Regional Teams, in 2004 the database was incorporated in the National Statistical System (SISTAN), the network of public and private entities that provides official statistical information (**section 1.4** and **Approfondimenti I.2**). Today, the entire database is managed by and can be accessed through the RPA information system (RPA-IS), which is a structured, centralised database that facilitates access to the information and enables more widespread use of the RPAs, including internationally. A comparison with similar experiences in Europe (**section 1.5**) points to the vital importance of the project, as well as to the completeness of the data gathered and the use of international standards in order to facilitate comparisons. **Section 1.6** looks at the outlook for the project in terms

of continuity and the constant refinement of methodologies, transparency and data accessibility.

Chapter 2, The Reference Universes, begins by discussing the definitions and criteria used to delineate the boundaries of the various universes of public entities to be surveyed. In particular, the Regional Public Accounts provide information on the broader public sector in line with EU requirements for verification of the principle of additionality for EU funds with respect to the national funding of each Member State. The public sector so defined includes general government, which coincides with the definition used for the Italian public accounts and comprises entities which produce services that are not intended for sale, and non-general-government entities, which include entities under public control (national and local public enterprises) that general government uses to deliver certain public services to the public, such as telecommunications, electricity, and so on, on a market services basis. (**sections 2.1 and 2.2**). National and local public enterprises, for which the database has a true information monopoly, are then discussed separately (**sections 2.3 and 2.4**). This analysis, especially for the universe of local non-general-government entities, made it necessary to develop a specific classification system, which is described in **Approfondimenti II.1**.

Chapter 3, The Nature of the Data, describes the nature of the RPAs as financial accounts. The consolidated financial flows are normally reconstructed on the basis of the final accounts of the entities concerned, recording the actual inflows and outlays that have taken place (**section 3.1**). However, surveying the public sector made it necessary to adopt a precise methodology in order to switch from the accruals-basis accounting of the majority of these entities to the cash-basis accounting adopted for the RPA project (**section 3.2**). The **Approfondimenti** on **Chapter 3** provide a detailed reconciliation of the accounts of the individual entities with the related RPA classifications, both between the accruals-basis and cash-basis accounts and between the RPA economic classifications and the accounts of SIOPE (*Sistema Informativo sulle Operazioni degli Enti Pubblici*).

Chapter 4, The Dimensions of the Data, describes the classification criteria and the various keys for querying the database. In particular, the financial and sector classifications adopted, which are based on the classifications traditionally used for the Italian public accounts and on international standards, provide a significant degree of data flexibility for analysis purposes (**section 4.1**). The detail provided in

Approfondimenti IV.1, IV.2, IV.3 and **IV.4** relates to the various aspects of the sectoral classification system adopted for RPA expenditure data. These sections provide the theoretical content of each sector, the critical issues encountered, and the percentage of entities that operate in the sector, as well as specific issues related to the national and regional accounts, certain detailed notes concerning the recognition of certain types of entity, and the relationships between the RPA sector classification system and the Classifications of the Functions of Government (COFOG) system. Geographically, the universe of the Regional Public Accounts is comprised of the 19 regions and the autonomous provinces of Trento and Bolzano. Each regional unit is codified on the basis of the ISTAT standard in order to facilitate access and ensure comparability with other databases (**section 4.2**). The temporal dimension of the Regional Public Accounts data (**section 4.3** and **Approfondimenti IV.5** and **IV.6**) has thus far achieved a lag of just 12-18 months with respect to the reference data period and has been improving significantly in recent years. This is the result of both a consistent application of specific methods of estimating missing data and of the introduction of a leading indicator for the areas most used in analyses of the financial data.

Chapter 5, Methods and Criteria for Regionalising Data and Consolidation, deals with one of the most complex aspects of creating consolidated public accounts at the regional level, i.e. the methods applied in regionalising and consolidating the accounts of the various entities within the public sector. The criteria adopted in disaggregating the expenditures (**section 5.1**) and revenues (**section 5.2**) of supraregional entities, which involves the use of specific indicators that take account of the needs of the RPA dataset, are then discussed separately. Specific cases, such as the regionalisation of the expenditure and tax revenues of the State or social security contribution, are dealt with in the **Approfondimenti** for **Chapter 5**. **Section 5.3** reports the precautions that must be taken in constructing regional expenditure and revenue balances and the essential adjustments to be made to the RPA data in order to calculate so-called fiscal balances in accordance with the regionalisation criteria adopted for the database. **Section 5.4** details the methods applied in consolidation. In the Regional Public Accounts database, each entity is treated as a final expenditure entity by eliminating the transfers between the entities belonging to the same level of government. As a result, when considering general government alone, public enterprises that are not a part of this aggregate (but are a part of the public sector) are considered on the same plane as private enterprises. However, when considering the entire public sector aggregate, transfers to

these entities fall within the reference universe and are, therefore, eliminated in order to avoid double counting.

Chapter 6, Uses and Definitions of Data for Analytical Purposes, considers the possible aggregations of the basic RPA variables that can be used to meet various policy and research needs. The database's extreme flexibility makes it possible to consider various sets of economic categories (**section 6.1**) and sectors (**section 6.2**) related to territorial areas that can be defined as needed (**section 6.3**). An important example of the use of the Regional Public Accounts to quantify the financial effects of recent federal reforms is the "Federalism Monitor", which is a set of six indicators constructed on the basis of RPA data (**Approfondimenti VI.1**), while a detailed examination of the comparability of the Regional Public Accounts with information drawn from the ISTAT National Accounts (**Approfondimenti VI.2**) shows how it is possible to reconcile data with other official statistics, which are able to provide overlapping data even though they are based on different methodological approaches.

Chapter 7, The RPA Information System, provides a detailed description of the structure of the shared central RPA database. The system provides full accessibility and flexibility in exploring the data at all levels of aggregation, both for the network of data generators and for external users. Beginning with the formalisation of RPA data into multidimensional variables (**section 7.1**), the chapter then describes the general criteria adopted in managing and exploring the database (**section 7.2**) and the controls needed to ensure the quality of the financial flows stored in the system (**section 7.3**). The **Approfondimenti** for **Chapter 7** examines a number of the criteria adopted in creating the system, as well as the main characteristics of the data, the various user profiles and the options available to users.

The event organised for the presentation of the *Guide to the Regional Public Accounts*, which included the reports and addresses presented below, did not involve a detailed examination of the *Guide*, but was rather designed to be an opportunity for discussion among the providers, producers, and users of the Regional Public Accounts in order to enhance awareness of the system's potential and limitations, while also underscoring the significant value it provides as a complete, up-to-date methodological approach.

The opening presentation was made by Mariella Volpe, the head of the RPA project, who took advantage of the publication of the *Guide* to illustrate its broader purpose and explain some of the underlying decisions and philosophy and the current status of the

Regional Public Accounts, while also providing certain interpretations and analyses of the data. This was followed by the presentations of Maria Teresa Salvemini, Giorgio Macciotta, and Francesco Pigliaru, the three speakers from outside the Department for Development Policies who were invited to act as discussants of the *Guide* and to offer a critique of its content, asking questions, stimulating discussion, providing methodological ideas and possible approaches to further analysing and understanding the RPA data. The subsequent debate then involved the many guests in attendance, who helped spark a rich, far-reaching discussion of methodological issues and the usability of the data, of the role and content of public statistics, and of the opportunities and difficulties of the RPA project's organisational model.

Regional policymakers also contributed, as did members of the RPA Regional Teams, data analysts and providers of the source data, i.e. all the key actors in the federated system of the Regional Public Accounts. The closing presentation was given by Carlo Sappino, head of the Department for Development Policies, who reviewed the event and offered some closing remarks, placing particular emphasis on the issues that emerged throughout the day's proceedings that were of particular interest to government departments and the decisions that they are required to make. He also underscored the need to properly acknowledge all those who cooperated in carrying out this project. Without underestimating the value of the financial incentives that have supported and strengthened the RPA Regional Teams over the years, it is also essential to make a definitive shift from being a pioneering effort to a permanent, ongoing programme, with all that entails in terms of standardised procedures and funds to be allocated to ensure that it can continue operating.

The presentation of the *Guide to the RPAs* was an opportunity to discuss the role that public statistics can and must play in supporting policymakers, providing both general and specific ideas for consideration, prospects for the future of the RPA project and its potential in relation to the broader system of Italian public accounts. Were we to briefly outline the results of this event, it could be said that the goal of a full, informed use of the Regional Public Accounts data by both politicians and other public decision-makers, of detailed territorial analyses of public financial flows as an effective means of supporting national and regional policy documents, is a goal to which the RPAs must now certainly aspire. Potential lines of research were also outlined, some of which have already begun and all of which are based on close cooperation between national and regional entities, with a view to studying, understanding, evaluating and analysing both

public spending decisions and fiscal policy decisions made in recent years in order to better understand the current landscape and future prospects. Potential opportunities for joint initiatives between government and academia were also emphasised, with the aim of developing possible RPA satellite projects, such as creating territorial balances that are currently impossible to calculate directly or potential forecast data, which could be used to provide further support to regional analysis of Italian public finances.

II. Presentation

II.1 Mariella Volpe – Public Investment Evaluation Unit (UVAL)³

When organising this event, we chose to entrust our three main guests (Professors Salvemini, Macciotta, and Pigliaru) with presenting the *Guide*, leaving them free to offer comments, suggestions, recommendations, and indications for areas of further study.

It is our belief that, after such an enormous effort as was required to create the *Guide*, it would be better for informed experts, and not the actual authors of the guide, to disseminate such a complex work. The speakers today, in addition to being leading experts in the fields covered by the *Guide* and having played a role in the development of this project, are also highly informed users who have made frequent use of the database for economic research and to support planning decisions. Therefore, they, perhaps more than anyone else, are in a position to assess its advantages and disadvantages, potential and limitations, and to recommend to new areas of investigation.

First, though, I will attempt to provide a broader sense of the purpose of this *Guide*, which marks the end of a long journey of analysis and methodological development. Above all, I will seek to clarify certain key decisions of the Regional Public Accounts (RPA) project and its underlying philosophy, and offer my impressions of the current state of the art in light of such decisions, so as to help inform the discussion.

The underlying principle for the production of this data is that statistics are a typically public good with the distinguishing characteristics of any other public good and, therefore, to be used in the broadest manner possible. This fundamental principle is also at the heart of two key beliefs: 1) that policy decisions must be based on empirical evidence and actual facts; and (2) that public policy must be transparent and measurable. In other words, we believe that decisions can only be made based on knowledge and measurement.

However, information is not necessarily the same as knowledge. Only good information can become knowledge and thereby also enhance society's capacity for democracy, i.e. the exercise of control by users over the management of the public weal. It follows, therefore, that an *ex post* reconstruction of financial flows that is as robust and transparent as possible – which permits the evaluation of territorial distribution and its

³ The slides accompanying the presentation are included in Appendix IV.1

related effects and to monitor objectives – increases the capacities of both local and central policymakers and makes it possible to set verifiable, well-founded objectives.

Of course, these grand statements of principle must also be developed and accompanied by content, so that they do not remain mere slogans. We decided to do this by constructing high-quality information that is at once complete, flexible, disaggregated, reliable, timely, certain, shared, accessible, and comparable.

The history of the RPAs is one of incremental progress toward these rules, a process which has now perhaps been almost fully realised. As such, I will now attempt to describe the current status of the Regional Public Accounts in the light of the responses that were developed to ensure compliance with these rules, discussing each in turn:

- *Completeness:* The database makes it possible to reconstruct, on a regional basis, all current and capital expenditures and revenues for a vast reference universe: the public sector. The scope of this universe is one of the key strengths of the RPAs. It is a much broader sector than the one normally used for public accounting aggregates, in that it extends the traditional concept of general government to that of the broader public sector, which includes national and local public enterprises.

The segment of local public enterprises in particular is a distinguishing feature of the database. With some 2,800 entities surveyed, it holds a monopoly of information on this category, made possible by the extensive national coverage of the network of RPA Regional Teams.

There are at least three good reasons to prefer the public sector universe over that of general government when analysing regional public policy: first, because this aggregate includes the financial flows of a number of entities in sectors that are key to development, such as the railways, the postal service, and local public utilities, and include them as final outlays rather than merely transfers between government bodies; second, because the expenditures of these entities have a significant impact on ratios between southern Italy and central and northern Italy; and finally, because certain planning principles aimed at ensuring an adequate volume of resources for under-utilised areas, such as that of providing southern Italy with at least 30 per cent of its ordinary funding (pursuant to Article 1(17) of Law 311/2004), also apply to entities in the broader public sector aggregate.

- *Flexibility and disaggregation*: I believe that this is truly a key principle, and we have always placed the utmost attention on implementing it in the belief that only detail and flexibility make it possible to formulate complex queries and verify sophisticated hypotheses.

We mustn't forget that the RPAs were established as a solution to the lack of uniform, systematic and, above all, sufficiently detailed information on public financial flows at the regional level. In other words, they were designed to replace inadequate public statistics, thereby filling an age-old void that some of our "founding fathers" had attempted to fill in the past, beginning with Pantaleoni and Nitti.

There are currently many query criteria for accessing the information (region, year, economic category, sector of public intervention, level of government, entity), which make the information enormously flexible.

- *Reliability*: The entire reconstruction process follows a bottom-up approach that starts from the most elementary data and builds up to a final consolidated account. The actual reconstruction of financial flows limits the need to perform estimates or reclassifications, and the information is drawn from the final accounts of the entities concerned.

Starting with Italy's 2005-2007 National Statistics Programme (NSP), the Regional Public Accounts became a product of the National Statistics System (SISTAN), the network of Italian public and private entities that provides official statistics. The inclusion within SISTAN significantly enhanced the database's output by conferring it with the status of "public statistical information".

- *Timeliness*: Remarkable progress has been made in recent years in this regard. Currently, the entire database provides information for the year $t-1$. For example, for our annual report at the end of 2006, we had access to a complete consolidated account updated through the end of 2005. Nonetheless, in order to use the RPA output as a stable, effective means of monitoring in support of public investment decisions, we felt it was necessary to have even more timely information, which is provided by a leading indicator managed by the Public Investment Verification Unit. The indicator anticipates the results of the RPAs with a significantly shorter lag (3-6 months), providing details in terms of geographic distribution (both by macro-area

and by region) of general government capital expenditure, net of financial items for the current year.

- *Certainty*: Certainty of release dates is also essential for proper analysis and policy decisions. We operate in accordance with specified timetables that, in addition to periodic structural revisions, call for two releases per year: one in February for the DPS Annual Report and one in July with the preparation of the Economic and Financial Planning Document.
- *Shared methods*: The institutional organisation of the project was designed from the outset as a federation. Our aim was to create a system that could unite information generated both centrally and regionally in order to make the consolidated account a means of supporting regional planning. The network structure was therefore not merely an organisational solution: it was also a means of agreeing methods, criteria and objectives. Today, the network of data generators is comprised of 21 Regional Teams, one in each region of Italy, and is coordinated by the Public Investment Evaluation Unit (UVAL) of the Department for Development Policies (DPS). Only such an extensive network makes it possible to obtain the detailed information needed to reconstruct the entire local public sector. It is equally important to note that, while the network of Regional Teams is of enormous value to this project, the Central Team within UVAL is both its engine and its heart, creating and consolidating methods not only with great professionalism, but also with the passion needed to keep such a complex project alive.
- *Accessibility*: the RPA data is both immediately available and easy to access. Updated tables of regional information extracted from the RPA database are available on the Internet at www.dps.mef.gov.it/cpt.

Furthermore, given the involvement of such an extensive network of data generators and users throughout the country, in 2004, a process of restructuring the system of generating and disseminating data began. The RPA Information System (RPA-IS) was born out of a need to create a structured, centralised archive that could provide full accessibility and flexibility in exploring the data, both for the network of data generators (the Central and Regional Teams) and for all authorised users and any level of data aggregation. This was an essential prerequisite in developing and improving the process of generating CPT data in order to safeguard transparency and control over the entire project.

- *Comparability*. Despite the diversity of the data, the reference universe, and the various aggregates from other public sources, we pay close attention to the need to communicate with “the rest of the world” and to compare and reconcile with other national and international classification and statistics systems. The extreme flexibility of the elementary data also makes it possible to use aggregate account, regional, and economic data that is fully comparable with information from other official sources.

This need, which became even stronger following the inclusion of the project in the National Statistical System, has prompted ongoing reconciliation exercises with other official statistics, which, even though they are based on different theoretical assumptions, provide data on phenomena that largely overlap with those measured by the RPAs, such as the consolidated general government accounts prepared by ISTAT’s Department of National Accounts.

At the same time, in delineating the boundaries of the broader public sector, for example, we also take account of the concepts adopted internationally in defining the International Public Sector Accounting Standards (IPSASs) and, in an attempt to accurately represent the multitude of sectors of public action, we use the official system of classifying general government expenditure established by the UN and adopted by international bodies, i.e. COFOG. Finally, when analysing the economic categories, we ensure consistency between those used by the RPAs and the SIOPE (*Sistema Informativo sulle Operazioni degli Enti Pubblici*) codes.

Thanks to all of these features, the RPAs have been supporting both analysis and policy decisions for some time now. Indeed, there are numerous stages of the decision-making process that use the Regional Public Accounts to monitor development policies, support policy decisions and improve analysis both centrally and regionally.

There is not enough time here today to list all of the situations in which the database is used. However, a number of potential uses are shown on the posters that we have prepared for this event (see Appendix IV.4), which present the various ways of interpreting the Italy based on this data. I hope that others will be pointed out in today’s discussions and in the testimonials of users of the RPA system.

Therefore, I will limit myself to giving just a few examples in order to pique your curiosity about certain uses in support of central and regional policymaking. Two projects are particularly worthy of mention with regard to regional policy, one of which

is currently under way within the network of Regional Public Accounts data generators, while the other was undertaken outside this network and has just been completed.

The internal project currently under way is a highly ambitious effort to prepare regional monographic texts that drawn on the enormous wealth of information that each Regional Team possesses to reconstruct the state of the public finances in each region. The actors involved are the RPA Regional Teams, which are thereby able to extend their role from that of merely generating data to becoming informed users of that same information. Indeed, such a rich, detailed information base makes it possible to analyse the relationships between territories even in areas of intervention that have received little scholarly attention, such as the relationships between the regions and central government, the regions and local authorities, or local authorities and the enterprises they control. Here, too, the role of the Central Team is of particular importance both in *ex ante* preparation and in *ex post* evaluation in order to ensure methodological appropriateness and the consistency of output.

The other example is also related to regional analysis, but, as I said before, was conducted outside of the network of RPA data generators. The findings of this project were published in June 2007 as a chapter in the Bank of Italy's *Note Regionali Annuali* (Annual Regional Reports), which describe economic trends in each of Italy's 20 regions through numerous real and financial indicators. This highly interesting chapter focused on the size of regional government and its main areas of intervention and was made possible by RPA data. But I imagine that the people responsible for this project, who I see are here today, will be talking about this in more detail later in the day. Here, too, the analysis exploited the great potential and detail of our data, which made it possible to create a detailed reconstruction of the relationships between the various territorial areas.

The most direct way of explaining how we use the database at the central level to measure the results of public initiatives, as well as to assess the regional effects of policies and implement any corrective measures, is to give a few examples taken from Chapter III of the latest DPS Annual Report, which was, in fact, prepared largely on the basis of the Regional Public Accounts.⁴

⁴ The 2006 Annual Report of the Department for Development Policies is available at the following address: www.dps.mef.gov.it/rapporto_annuale_2006.asp

The most obvious fact at the macroeconomic level is the continuing positive correlation between total public spending and the level of development, which confirms a general anti-distributive effect: low per capita GDP is accompanied by lower per capita expenditure and vice versa.⁵ Most of the differentiation between North and South is attributable to current spending, which, in addition to accounting for about 90 per cent of the public finances, is the most rigid and least manoeuvrable component for policymakers, given that it follows the development process rather than guiding it and, ultimately, contributes to maintaining imbalances. Although much more smaller than current spending, for a number of years capital expenditure showed a certain degree of consistency with the goals of achieving balance by favouring the less developed regions. During the period 1996-2005, the share of capital expenditure in southern Italy for the public sector averaged 35.7 per cent. This partial balancing effect was attributable to the fact that a large part of spending for development (the Fund for Under-utilised Areas and the Structural Funds) is allocated territorially on the basis of criteria defined *ex ante* and in line with the provisions of Article 119(5) of the Italian Constitution. However, this balancing role in favour of southern Italy that capital expenditure played up to 2001 has gradually declined in recent years.⁶ Over the last two years in particular, per capita public spending in central and northern Italy was about €180 greater than in southern Italy.

This phenomenon is largely due to the dynamics of investment by the public sector entities. Because they operate in the market, they face real difficulties in performing a redistributive role, even though policymakers have set them this task. Most such entities are far from achieving the policy target established by Article 1(17) of Law 311/2004 (the 2005 Finance Act), which intended to ensure that southern Italy received ordinary capital expenditure outlays equal to 30 per cent of total spending and 45 per cent of capital expenditure.⁷

Expenditure by local public enterprises, which government has entrusted with the mission of providing users with a range of public services, is also highly concentrated in central and northern Italy. The financial weight of these entities is not particularly high

The slides used during the presentation when discussing Chapter III, which are included with all the other slides in Appendix IV.1, are footnoted separately below in order to facilitate understanding of the information presented.

⁵ See slide 19 in Appendix IV.1

⁶ See slide 20 in Appendix IV.1

⁷ See slide 21 in Appendix IV.1

(6.6 per cent of total capital expenditure), but an analysis of this component is particularly important for the local sector precisely because it provides detailed information on the structure of the markets and regional differences in terms of the decision to transfer functions, thereby enabling a more accurate analysis of administrative decentralisation, as well.⁸

For example, let us look at expenditure trends in three key sectors: the environment and waste disposal; roads and transportation; and water services.⁹ This clearly shows how the considerable declines in local and central spending that has characterised these sectors in recent years would not be explainable without including data on the significant number of local public enterprises to which a large number of functions and activities have been decentralised, both as a result of the independent decisions of local government and through policy and regulatory rules (such as in the water services segment, with the “Galli” law and certain provisions of the 2000-2006 CSF).

I would like to close by saying that, although the RPAs are now a robust, fully operational tool, there are still a number of areas for potential further development. One key objective for the short term is to enhance the use of the database, particularly for the purposes of analysis, both nationally and locally.

A no less important goal that is currently the focus of a great deal of attention is that of ensuring the adequate dissemination of products, methods and results. The opening to the academic world and policymakers has increased demand for the RPAs and, as a result, increased the importance of the need to ensure greater continuity and refinement of the database over time, as well as transparency and accessibility, as these conditions are essential for users to be able to base their decisions on clear, accurate and reliable information.

Strengthening the dissemination process and increasing the visibility of the theoretical aspects underlying the RPAs are the goals that have inspired, first and foremost, the creation of this Guide, but are also the source of the care given to constantly updating the site, to creating English-language versions of all of the output and products, and to providing direct access to the database to all external users.

Finally, a study is currently under way to assess the possibility of expanding certain levels of detail in the RPA data, both as regards the distribution of flows by source of

⁸ See slides 22-23 in Appendix IV.1

⁹ See slides 24-25-26 in Appendix IV.1

funding (ordinary resources and additional EU or national resources) and greater regional depth in order to create sub-regional accounts. Even for peripheral tools, such as the leading indicator of general government capital expenditure, the intention is to work towards improving data depth and increasing its frequency.

II.2 Maria Teresa Salvemini – University of Rome “La Sapienza”, Europrogetti e Finanza

I am very pleased to be able to discuss the methodology aspects of a project that, today, appears to have fully matured, but which is the result of years of patient, intelligent work, a project that I helped to begin in 1994 with the Regional Policy Monitoring Centre.

I am also pleased that I was able to find Mariella Volpe among the personnel of the former Southern Italy Development Agency (Agensud) and the other bodies formerly involved in special intervention who needed to be placed with ministries or other public institutions. Unfortunately, this operation, which could have brought specific technical skills and key knowledge to (so-called “ordinary”) government bodies, was significantly weakened and, to a certain extent, made impossible by form of corporative defensiveness, particularly by ministries’ personnel offices and – I have to say – by a substantial lack of political interest in an operation that would have lent much more significance to the termination of special intervention that Nino Andreatta had implemented so rapidly and with such great determination.

Some of the most talented people from Agensud, or from the Department for Southern Italy, whom I had met as cabinet head for Andreatta, came with me to the Regional Policy Monitoring Centre. Mariella Volpe was one of these. Others, unfortunately, were not utilised nearly as well.

In 1995, the enhancement of studies on the RPAs were the result of observing a disaster at first hand. The numbers for special intervention in the South were awful:

- we didn’t know how many promises had been made or how much funding there was for the business subsidies;
- we didn’t know how much work had been started but not completed or what the related costs were;
- we knew nothing about the additionality of the funds;

- we had no information for a global view of the policies that could have affected development in southern Italy, which therefore appeared to be entrusted solely to specific funds.

Because of its brief duration, the Monitoring Centre was little more than a “sign of institutionalisation”. But it may have been the first time that we realised how pointless it was to talk policy without there also being an effort to measure policy.

“Development policies” came to be considered primarily those policies connected with the planning and spending of EU funding (in a certain sense it remains so to this day: in last year’s Economic and Financial Planning Document, after a series of chapters dedicated to the various sectors, there was one entitled *Mezzogiorno* (Southern Italy), as if it were possible to design a development project that did not consider education or urban policy and that could be connected to a separate appropriation of funds to be spent).

The first tool that we found at the Monitoring Centre to bring down the Chinese walls between the various policies being implemented by the various government entities and the development policies for southern Italy, which was tied to the spending of Structural Funds, was the verification of additionality.

In order to demonstrate to the Commission that the funds received were additional funds, we needed to have a precise account of what the funds were being added to. Capital expenditure was the main focus of attention. But not only general government spending, because EU funds could also be given to the State Railways, the State Road Agency, water utilities, and so on, whose expenditure also needed to be demonstrated. Precise information on the amount and timing of national co-financing was even needed for internal relations between public entities.

I say this not to recall something that may only interest me personally, but to help everyone understand the line of thinking that brought us, over the years, to the creation of the Regional Public Accounts.

The path we took was not aimed at establishing control (as in the case of others dealing who deal with public accounts, such as the Office of the State Accountant General (RGS) or the State Audit Court) nor of being a neutral spectator (such as ISTAT).

Rather, it sought to understand the policies that have been made and that are being made, with a particular focus on regional distribution because is regional policy that generates the need.

However, it was a challenging path, one that could only be followed by someone with the stubbornness and, I would add, the moral sense of duty to the public to carry out the role of a true “civil servant” that the people who have worked on this project possess. I have known many of them personally for quite some time, one in particular whom I would like to mention, Fabrizio Barca.

The difficulty of this undertaking is underscored by the analogous challenges of the still-unresolved issue of the public accounts that can be used in ensuring compliance with the constraints imposed by the Stability Pact.

But this is an issue that we have begun, if not to find an actual solution, at least to face with some hope for success with the SIOPE system, which is based on tracking all payments. However, this is a project that for too many years was stalled by the fact that accounting systems that had been separated by a misguided concept of autonomy made all efforts at consolidation impossible. And this was true, when reasoning in terms of the formal standards required by the accounting judiciary, but in view of the issue’s urgency it could have been faced with greater determination by legislators using a methodological and institutional approach similar to that adopted by the RPAs.

Of course, a solution to the problem will require another step, because we need to transform the SIOPE cash-basis payment data into accruals-basis data.

What is more, I was told (I haven’t been involved in these issues for some time now) that the Ministry for the Economy owns the data, which limits its use by other parties. If this is true, here, too, we will need to follow the example of the RPAs, i.e. by involving all institutional actors, both in providing and using the data, automatically, without the need for requesting permission, and promoting its use by all experts, in the same manner that lead, a few years ago, to the conference on federalism, equity and development entitled “*Federalismo, equità e sviluppo. I risultati delle politiche pubbliche analizzati e misurati dai Conti Pubblici Territoriali*”.

What we have been asked to present today is a *Guide*, a document that provides an in-depth description of methodological and operational aspects. I cannot underestimate the importance of the Regional Public Accounts for policy analysis, and so our focus is,

first and foremost, on the results, on the statistics presented on the website dedicated to the database and the various classifications that have been adopted.

First, however, I would like to emphasise the intellectual honesty of this *Guide*, in that it isn't simply a user's guide, but also points out any weaknesses or other unresolved issues.

This is the scientific method. A method that ensures advancement and knowledge. It does not defend the power of the information provided. It admits that there will be systematic revisions and explains the reasons for this. The *Guide* also includes warnings about the imprecision that prompted the decision not to reclassify the various micro-items of the accounts, but to first take what we have and point out the imperfections that could arise as a result of this decision.

Given the urgency and enormity of the problem of knowing how much is spent in a given region to resolve a given problem, it is of secondary importance that this figure might have certain imperfections or be accompanied by numerous caveats.

The relationship in the method used between central government and peripheral entities must also not be forgotten. Central government is often arrogant and paternal. Local powers are often overly demanding and complaining. Both sides defend their own powers and their own areas of control.

Italy is not a country that is used to cooperation between public entities, but given how this project was organised, it is also clear that such cooperation is possible. Cooperation is a two-way street, both in terms of input and output. It is beneficial to both sides.

But this is easier said than done. Institutionalising cooperation, without resorting to the baroque world of "shared powers", is a miracle. It is a path that should also be pursued to avoid waste, inefficiency and duplication, all of which go back to the old debates that Mariella Volpe mentioned in relation to special intervention, but which can be seen in all areas of public action.

It is difficult to present this *Guide* in a manner that does it justice, in part because it is not enough to just pick a few aspects here and there and in part because I am sure that any observation I could make has already been made, discussed and analysed.

So it is not for the benefit of Mariella Volpe and her colleagues that I will make a couple of observations on method, but solely for the benefit of all those who, when reading

this *Guide* and, above all, considering certain issues and policies in greater depth, might require an additional warning or two.

Accordingly, I would like to address three issues:

1. the regionalisation of central government interest expense;
2. the use of cash-basis data and the leading indicator of investment;
3. the still insufficient regionalisation of expenditure on “research and development”.

Let us look at each in detail.

1. On the matter of the regionalisation of interest expense, the *Guide* provides a number of caveats and, on page 76, recommends analysing RPA data net of this expense.

The reason is that the regional allocation of interest is carried out by the RGS for central government. This allocates payments based on the regional distribution of the government debt securities, but this contributes to allocating expenditure based on the regional distribution of the financial intermediaries to which people entrust their savings. As a result, it is no coincidence that the bulk of “non-allocable” charges of consolidated government expenditure is located in the Lombardy region (40 per cent of the total for 2003-2004), with all other regions lagging far behind.

On the other hand, I believe it is correct to not use the ISTAT method, as this method allocates interest expense based on the allocation of the deficits that generated the debt, almost as if it were an attempt to identify the “guilty” parties. The problem is finding a way of identifying who “benefits” from the payment of interest. And in my opinion, this cannot be done.

Furthermore, given the sheer volume of interest expense and its ratio to GDP and to the total budget, a use of data that also adds non-allocable charges to other regionalised expense items would lead to an imprecise reading of this information. Consider, for example, the fact that interest expense comes to 6 per cent of GDP, 90 per cent of which is related solely to the State budget, given the long-standing policy of raising funds for the Treasury by issuing debt and then distributing it. Therefore, in working with this data, we need to limit ourselves to primary spending and to the primary budget balance.

The inability to “regionalise” the purchasing power connected with the distribution of interest also means that the demand models that use this data are also imprecise, as are any revenue/expenditure balances calculated.

Even for the interest expense of regional governments or local authorities and enterprises the assumption that the interest is distributed within the region that issued the debt is a strong assumption. Consider, for example, the fact that regional and municipal bonds are placed almost entirely in bank portfolios or in securities portfolios that are managed by the banks that organised the bond placement. Therefore, it does not appear to me that there is any territorial relationship between the debt issues and the interest paid, so it would be better, for the entire consolidated account, to use just the primary balance. This also means that the disaggregated economic and sectoral items cannot be reconciled with total spending if it includes interest.

2. The second point which I would like to address is the use of cash-basis data and what this means both in measuring investment spending and in calculating the leading indicator of general government capital expenditure.

The use of cash-basis data rather than accruals-basis data (whether it be financial or economic accounting) is a choice that favours a specific point in time, that of the payment, that cannot be interpreted differently from one organisation to another and that is based on final figures.

As regards investment spending, the first problem that arises from this decision is that much of the data used within the public sector, which is of particular importance given the various types of infrastructure expenditure, can cause difficulties when shifting from “economic” accounting, which recognises the cost value of the resources used and the revenue value of the services produced independently of the time in which the transaction actually takes place. But this is merely a technical problem and one that the creators of this database are well aware of.

It is, in fact, more interesting to consider the use of cash-basis data in terms of policy analysis. There is a longstanding debate surrounding the use of investment data in econometric models, and I would like to take a moment to summarise the key points of this debate. Investment is a process. It begins with the expenditure law, followed by the budget of the entity, the preparation of financial accounts, and

then the expenditure commitment and the preparation of economic accruals-basis accounting. General government spending also takes place on a percentage-of-completion basis (although among non-general-government entities the process is different), which brings us to the end of the process with completion of the works, testing and approval and the final balance.

Intermediate payments, although significant, do not tell us if the service has been provided or if the policies for the sector are actually being implemented. All they tell us is how much material has been purchased and how many salaries have been paid. The use of these intermediate payments is fine for “demand” models, but tells us nothing of the use of the project or the services it provides, so such payments cannot be used in supply models or in other development models in which the capital is important.

But if this is true, then doubts arise as to the utility of the leading indicator, which has been constructed to “conduct analyses of current developments and represents a stable and effective monitoring tool in support of the public investment decision-making process”.

Clearly, the very nature of the various steps that make up the capital expenditure process enables us to make use of statistical techniques in order to anticipate cash-basis expenditure data. All we need are accurate accounting statements and the application of appropriate statistical models or other *ad hoc* forecasting models.

This is what the *Guide* does, and it seems to me that it has been done well.

But to what end can this be done? To see if capital expenditure next year will be greater or less than last year? Whether or not we are complying with the expenditure schedule for a given programme (as in the case of the implementation of the Community Support Framework)? To see which geographic areas are furthest behind schedule, but without being able to determine if this depends on the type of spending that is being carried out?

These are all questions that I am not sure how to answer.

I do feel that there is a certain utility, but I might like to hear a bit more explanation, and, in any event, I would recommend keeping a certain “distance” from the data and changes in the data.

The true value of the RPAs lies in their structural significance, in policy analysis, not in their use for short-term analyses.

3. I would also like to say a few words on the RPA sectoral classification system because it provides some very interesting information. The public sector consolidated account has been classified into categories that differ from those of the public accounts, which normally follow the UN's Classification of the Functions of Government and which are easily classifiable in this manner. This is a topic on which the *Guide* spends a great deal of time, and it is difficult to underestimate the value of the information to those who wish to make mixed use of the accounts data.

In order to use RPA data for sectoral policy analysis for individual regions, we first need to make the regional data comparable, given that the regions of Italy differ significantly from one another both in terms of size and population density. Thus, the first thing we need to do is to convert the totals into per capita figures, so, if we are interpreting sectoral expenditure based on percentages of total public expenditure, we need to deduct interest expense (for the reasons I have already mentioned). These calculations were part of an exercise which I, along with Macciotta, had conducted some time ago using data for 2003 and that I have not been unable to update with the more recent data that is now available. However, I do not believe that the results would have been much different, and, in any event, my goal today is merely to point out certain types of uses of this data, without going too deeply into the substance of policy.

Using per capita expenditure by sector for the individual regions, I was seeking to verify a number of "preconceptions" that appear to be all too common and which often influence spending policies.

The first such preconception is that bureaucracy in the southern regions is excessive and too expensive. The second, and opposite, preconception is that the wealthier regions are the ones where both central and regional government spend the most in order to finance the government machine.

In actual fact, if we create a sort of production function that compares how much is spent on administration in each region with total expenditure (excluding interest expense allocated on a weighted basis to each region and always using per capita figures), we see that the ratio is virtually constant across all regions, with between 12 per cent and 13 per cent of total spending going to operating costs, regardless of

geographic area. The “outliers” (at around 16 per cent) are, as one might expect, in the regions governed by special statute and the Lazio region (due to the unusual weight of Rome as the capital city). However, the Lombardy region is also higher, at 15 per cent, and it would appear that an analysis over a number of years would be needed in order to explain it.

It is also interesting to determine whether the regions that appear to be more efficient, according to these simple calculations of mine, which are (not surprisingly) Liguria, Piedmont and Emilia Romagna, each with a ratio of general administration to total expenditure that is 2 percentage points less than the average, are structurally and stably those with the most efficient public structures.

A second interesting set of data comes from the field of “social affairs”. Expenditure in this sector is the highest, in percentage terms, of all sectoral spending, both nationally and for the individual regions. But it is the regional comparison that helps us to understand why per capita spending by the public sector as a whole is higher in central and northern Italy than in the South.

The 2006 DPS Annual Report states that, during the period 1996-2005, with an average annual expenditure of about €770 billion at 1999 prices, the average person in central and northern Italy receives €14,242, which is about 42 per cent higher than the €10,044 for the average person in southern Italy.¹⁰

Now, out of total public expenditure, the pension system accounts for an extremely significant percentage (about 40 per cent of pension spending nationally). But when looking at the individual regions, we see that the per capita figure for pension spending is much higher in central and northern Italy than it is in the southern regions, with between €4,300 and €6,200 per capita in central and northern Italy and between €2,700 and €4,100 in southern Italy (based on 2003 data).

Given that Italy still has a pay-as-you-go social security scheme in which the amount of the retirement benefit far exceeds the actuarial value of the contributions paid, and given that the pension system as a whole is operating with a deficit that is covered by general taxation, it can be said that the redistributive effect of this situation significantly attenuates the progressive nature of the fiscal system. While the poorest regions may not exactly be paying the pension benefits of the wealthier

¹⁰ See the *Rapporto Annuale 2006*, Dipartimento per le Politiche di Sviluppo, p. 163, available at www.dps.meg.gov.it

ones, but it is clear that they do not receive the same benefits, simply because these regions had a lower employment rate in the past, which translates into lower pension benefits paid now.

Obviously, I do not intend to get into such a politically heated issue. I merely want to say that this is simply an example of a much more general fact and point out something that those who have studied the problems of southern Italy know all too well: that when discussing the challenges of development in the South, we cannot consider special intervention, even though it was additional, without also considering the whole set of public policies that have been implemented.

Another sector of great interest, given that an extension of general government to the broader public sector makes it possible to deal with the issue of the exact volume of public spending, is that of research and development. National and regional government account for 32 per cent of this sector, while the largest percentage is represented by research institutes (CNR, ENEA, INFN, ISTAT, ISAE), which account for 60 per cent of the total.¹¹

What is surprising, however, is the fact that organisations such as ENI, ENEL and the former IRI companies are in no way considered as “producers of research”, which may be due to the fact that they operate through subsidiaries that are not a part of the aggregate considered. Nonetheless, it seems to me that the regionalisation of expenditure in this sector raises a few questions. If we look at per capita figures, Lazio posts numbers that are 8 to 10 times those of the other regions. Now, it’s true that CNR and ENEA, the two largest institutes, are based in Rome. But it is also true that these institutes have research centres throughout Italy, many of which are directly funded in part by foreign sources.

If, as Nitti said, a service is important because of what it has to offer the whole nation, but that where it is produced also counts, this must be given particular importance in the field of research. A region, or a city, that is home to leading research centres or research-oriented universities also enjoy greater potential for spin-offs or for technology transfer. Here, I believe that the figures can certainly be improved by taking advantage of the much needed collaboration of CNR and ENEA.

¹¹ See the *Rapporto Annuale 2006*, Dipartimento per le Politiche di Sviluppo, p. 281, available at www.dps.meg.gov.it

II.3 Giorgio Macciotta –CNEL board member

I, too, would like to start my presentation by expressing my appreciation as a user of this data. I believe that the work that has now been made available, after a decade of effort that united central, regional, and local finance, and which, as Mariella Volpe remarked, provides information both for general government and for the broader public sector, is very important and that it would be of great use in discussions that, in the absence of numbers, often remain on the philosophical plane.

In fact, I believe that we cannot discuss the accounts without having the numbers and that all discussions without numbers are built on sand.

Very often, I come across urban legends about regional public finance flows in Italy, or about unending flows of resources from North to South, tax evasion or the weight of bureaucracy. But if we look at actual numbers, we find that personnel costs for all of the government bodies in southern Italy increased 25 per cent over the last decade, while in the North they increased by 35 per cent.

If we look at the figure for expenditure on *general administration*, which includes the so-called “cost of politics”, we discover that the per capita numbers are far higher in central and northern Italy and that these costs, excluding Lazio, are increasing much more rapidly in the Centre and North than in the regions of the South. To cite just one example of a fairly large region, Lombardy went from a base index of 100 in 1996 to 275 in 2005.

When we analyse this data, we find a number of surprises that perhaps deserve to be better understood by those who often talk about the budget without having any idea that, for example, the tax burden in Trentino, as a percentage of GDP, is lower than that of Calabria and that the contribution to national revenues in these two regions is essentially the same, despite the fact that per capita GDP in Trentino is about double that of Calabria. It might be worth the effort to consider these issues and, to this end, the RPAs are an asset that deserve to be explored further. But I will return to this later.

This wealth of information is particularly useful with regard to a discussion that arose after last week’s meeting of the Council of Ministers concerning the implementation of Article 119 of the Italian Constitution. Creating a model for implementing Article 119 without having a clear idea of the flows of funding by sector and by region is a far-fetched proposition, and it would be best for all those who need to make decisions or

participate in the decisions on this issue at the local level to gain this understanding right away.

But there is a problem. Article 119 calls for fiscal federalism on two fronts: that of the regions (Article 117 and the transfer of legislative powers) and that of local authorities (Article 118 and the transfer of administrative responsibilities). Fiscal federalism is not possible if we fail to consider that most expenditure centres should be located as closely as possible to the public. The previous Article 118 said that administrative responsibilities “could” be delegated to a level below those who exercise legislative power. The current Article 118 states that administrative responsibilities “shall” be delegated, with certain exceptions, to the level closest to the citizenry. It seems to me that this is not considered nearly enough in projects that are currently being discussed, and, from this point of view as well, the Regional Public Accounts are of great value.

But it is not only the positioning of the expenditure centres that changes; so does the method of raising funds. Unlike the past, the primary means is no longer the funding of lower levels through the national budget. This practice has been replaced by a combination of local taxes and sharing of national tax revenues, plus any shares of the equalisation fund, without earmarking restrictions for the regions with lower revenue-generating capacity. From this point of view, the data shows how the revenues of the government entities in southern Italy have increased over the last decade by about 4 percentage points as a ratio to the GDP for the area, while the revenues of the central and northern regions have decreased by 1 point and how the gap, which was 52 per cent to 44 per cent at the beginning of the period in question, narrowed to 51 per cent to 48 per cent at the end of the period. It seems to me that this trend also deserves a certain amount of attention when creating a model of fiscal federalism.

I think that the value of completeness, the first point mentioned by Ms. Volpe, comes from the length of the time period covered and the accuracy of the data. Ten years is a long time. Indeed, there no other available universe that is so extensive. This data also makes it possible to track the outsourcing of functions to wholly or majority controlled enterprises, such as ANAS, Ferrovie dello Stato and Cassa Depositi e Prestiti, which play an increasingly important role in controlling essential public capital. These are all entities that must be monitored, because their creation has not reduced the weight of public power simply because ANAS, for example, went from being an autonomous government entity to being a corporation governed by ordinary company law. For the

purposes of decision-making powers and the public finances, the situation has not changed, because the corporation is wholly owned by the State, in precisely the same manner as Ferrovie dello Stato.

The fact that the RPAs provide information on the accounts of all of these entities enhances the value of the data even further.

Furthermore, their structure by level of government tells us the historic volume of expenditure and how it has developed over time, which is already being carried out today by local and regional governments. The first application of fiscal federalism must necessarily begin with the translation of historical spending into tax revenue sharing, local and regional taxes, at normal tax rates, and any equalisation fund revenues. We can then move on to implementing new responsibilities, with the application of Article 117, and the allocation of additional funds. The quantification of costs for this first block of responsibilities, which the historical data allows us to determine, is already enough to avoid excessively heedless initiatives. Let me describe one example that I happened to experience first hand back when I was in a different job: it was discovered that a ministry had, overnight, emptied the expenditure accounts used for transfers to the regions, thereby forcing us to calculate the resources to be transferred by reconstructing at least three years of data in order to keep the regions from abandoning the State-Regions conference. Today, we have the official data of the Regional Public Accounts, which makes games like these more difficult.

The second positive aspect is the ability to reconstruct the costs of the functions transferred from two different points of view. I have noticed that when people speak of cost standardisation, they always talk about efficiency and not about the quantity of services provided. By contrast, I think that there should be a two-fold standardisation, both in terms of efficiency and in terms of service quantities.

In the most recent Economic and Financial Planning Document –which is a bit less positive than the one of last year – one of the aspects that could be criticised is the fact that, in the 17 chapters on key sector policies, there are no numbers on the targets to be reached, with the sole exception of pre-schools. In that chapter, the target is indicated as 30 per cent of the children served. I wonder if it wouldn't have been better to provide a table showing how many children are served in Emilia and how many in Calabria in order to understand the quantitative target that has been set and the gap that needs to be closed if we wish to achieve standardisation. We shouldn't limit ourselves to talking

only about efficiency, which is undoubtedly greater in the North, but also about service levels, which, just as undoubtedly, point to serious imbalances between areas of the country.

The length of the time series also enables us to overcome certain defects resulting from anomalous variations. The product goes far beyond the support it can provide in verifying the principle of additionality for EU funding. It is certainly useful in that regard, but it is also much more.

The work done by the Department for Development Policies has been helpful, and I am sure that Mr. Sappino is fully aware of its value and knows how to take full advantage of it. This ensures that the work will continue, given that we need to make a giant step forward and enter the policy process.

Unfortunately, this has yet to be achieved. For example, allow me to mention a surreal discussion that took place, concerning active labour policies, in conjunction with the recent discussion of the budget for the Sardinia region. Consistently over the last decade, Sardinia has been the region that has recorded the highest level of spending per capita in the area of labour policy. For the last year recorded, for example, the region spent €107 per capita, whereas the region in second place spent just €53, with the third-place region coming in at €33, an average for southern Italy of €20, and a national average of €12. In Sardinia, it was decided to double the appropriation, rather than wonder how the funds already being allocated are being spent (or not). This is just to show that, if this data had become a part of the policy process, €150 million might have been better spent. Therefore, I believe that it really does need to become a part of that process.

But there is more to be said in this regard, because certain difficulties in gathering data have been reported. And I think that we can, indeed we must, find a solution to these difficulties. The recent discussion surrounding the implementation of Article 119 tells us that while local and regional entities have some autonomy in revenue raising and expenditure, central government has the right, and I would say the duty, to have all the data. This right/duty derives directly from Article 117(2)(e) of the Constitution, which states that central government must enact equalisation measures, which is impossible without access to data. Central government must also define the essential performance levels regarding the civil and social rights that must be guaranteed throughout Italy (see Article 117(2)(m)), and without quantitative data, these essential levels and any gaps that

must be bridged cannot be established. Central government has the right and the duty to have this data for the role it plays in coordinating statistics and other information for all national, regional and local government bodies (Article 117(2)(r)) and because central government has concurrent responsibilities with the regions as concerns the coordination of the public finances (Article 117(3)). Therefore, revenue and expenditure autonomy does not justify departures from absolute transparency in such flows and data.

I believe it would be helpful to determine how well suited the bill on fiscal federalism approved by the Council of Ministers is to these purposes. The bill takes several steps forward, but I think that a number of corrections should be made and that, as part of the discussions currently under way, it would also be good to take a look at the criteria for equalisation between North and South, which both I and Ms. Volpe have emphasised.

I also feel that this work is particularly helpful in another process that is currently under way, that of the reform and reaggregation of public finance data. If I may engage in a moment of self-criticism, when we transitioned from revenue and expense chapters to basic budget units (*Unità Previsionali di Base*, or UPB), the aggregation of these chapters was a bit random. Now, when going from the UPBs to the programs and missions, we need to avoid doing the same thing. We need to carefully “unpack” the UPBs and put them back together. The sectoral organisation that the Regional Public Accounts database has created can support these efforts. It would also be helpful for the Department to leverage these skills and this know-how by supporting others who are dealing with this issue and who could be assisted by the work done to create the RPAs.

Finally, I would like to close with a few suggestions as a user of the data. I have begun circulating your data within the CNEL (the Italian National Economics and Labour Council), creating an attachment to a document approved in May. This then enabled the weekly CISL publication to reuse a portion of this data in a story, which in turn enabled others to begin working with this material. In order to make these efforts of yours more useable in the policymaking process, another objective needs to be set: we could attempt to project the time series and the classification system adopted to the 2008 budget, which will begin to be discussed in September. We will of course need to let go of the idea of adding the municipalities and stop at the national and regional level, but, in part in relation to a provision included in the bill to implement Article 119 of the

Constitution, which calls for certainty in resources for the local and regional system as of 30 October, the possibility of having a projection for the budget for the following year as of that date, classified in the manner used in the Regional Public Accounts, could be the step that truly forces the policy process to take account of your work.

II.4 Francesco Pigliaru – University of Cagliari and CRENoS

I consider my participation here today to be both a privilege, for which I would like to thank the organisers, as well as the duty of an economist who has always felt that this data would be especially useful and who has seen the information expand year after year. I feel that I have a duty to underscore the utmost importance of the efforts of the DPS and Ms. Volpe. I will now attempt to explain why I find this data to be so important. Naturally enough, my point of view is influenced by what I do in my professional life. First of all, as an academic and an economist who has focused on the theory and empirical analysis of economic growth, with a particular emphasis on the convergence or divergence of economic areas, including the various regions, as well as on the real economy, on development, and on structural data. Second, in the last three years I have been a part of the government of one of the regions that Giorgio Macciotta discussed, namely Sardinia. During this period, I was a councillor for planning and the budget, a budget of more than €7 billion or about 23-24 per cent of Sardinia's GDP. Therefore, I can testify to the importance of the Regional Public Accounts from these two points of view: one academic and the other more operational, at the heart of the expenditure decision process.

I will begin by focusing on the academic standpoint because, as Keynes has taught us, we must never underestimate the influence that economic analysis has on politicians, although this may not necessarily be immediate. As a recent, partial user of this data, I would like to discuss their potential and a number of problems associated with their use from the point of view of an economic analyst.

Ms. Volpe mentioned a key issue: we live in a nation that is, in many ways, lagging behind other countries, particularly in the design of policy based on empirical evidence. I recently participated in an international workshop on measurement, which included experts from around the world, and the only question around which this meeting revolved was this: Why does not Italy do measurement? In particular, these international experts were asked to help us to understand how we can initiate a process that will lead

us to measurement. It seems to me that the availability of data like that of the RPAs is an important step in the right direction. Let me give just a few examples to demonstrate what I am talking about.

I would like to divide my presentation into two parts: what we can do right now and what we can do immediately after that. For example, at CRENoS, a research centre in Sardinia, we have recently used the Regional Public Accounts to analyse the weight and the role of the public sector in the regional economies. This is not a trivial exercise, because when I travel around the region and tell people what the public sector amounts to as a percentage of regional GDP (which I will get to in a moment), I get very surprised looks even from those who are in important positions within the public sector.

In this type of analysis, we use OECD studies and the studies of other international bodies that make careful comparisons among various countries. As you are aware, there is a heated age-old debate on the role government size plays in the economy. The Regional Public Accounts enable us to use this essential literature for regional analyses.

So let's look at the numbers. The public sector in Italy accounts for an average of around 50 per cent of GDP, compared with around 44 per cent in the UK, 38 per cent in the US, around 36 per cent in Spain and Ireland, 55 per cent in Sweden, and so on. And in Sardinia? In Sardinia, the public sector comes in at 68 per cent. When presented with this number, an OECD economist said to me, "But that's like the Soviet economy!" Maybe not. Actually, certainly not, but it is better to know that we are talking about levels on that order. And it is also better to know that it is not an "illness" exclusive to southern Italy. In fact, even more surprising is that the public sector in Valle d'Aosta, a decidedly wealthy region, also accounts for 68 per cent of regional GDP.

Important numbers indeed. The cross-region variance is another interesting figure. As we have seen, Sardinia and Valle d'Aosta post the highest numbers, but given that the Italian average is around 50 per cent, it is clear that a number of regions are significantly below 50 per cent.

Of course, a number like 68 per cent points to a problem, but does little more than that. Perhaps Friedman would have stopped here, given his conviction that the optimal size of government is 15 per cent of GDP. However, before handing down such a definitive sentence, we need greater insight into the composition of this expenditure.

Fortunately, the Regional Public Accounts provide a great deal of sectoral detail and, here too, prove to be of extraordinary value. I will now try to give a few brief comparative examples.

First, though, I would advise anyone thinking about using this data to make sure that you interpret it with a critical eye. A number of spending categories, including a some very substantial ones, are totally “endogenous”. From the point of view of analysing regional differences, if we want to understand what causes such differences and what role local decisions play in them, these endogenous components do not tell us anything useful. One of these components is pension spending, which inevitably follows the income levels in each region. In other words, it is an automatic legacy of the past and, therefore, does not help us to develop an exogenous explanation of the differences in economic performance.

A second component that must be carefully considered is the portion that concerns spending intended to provide services at uniform standards throughout Italy, which, in this case, is entirely independent of local income levels. This, too, is a component that does not reflect local decisions, so, while it is essential to describing the condition of the tangible and intangible infrastructures of a region, it does not necessarily help us in studying how differences in local decisions determine differences in performance.

Once we have removed these two components, the remaining RPA data defines a sort of “locally manageable volume” of public expenditure, precisely because it reflects the decisions that are made at the regional level. As such, it is of interest to see if this third component varies from one region to another. And this is good news for researchers: this third component varies widely from region to region. The regions appear to be making different decisions, which makes it possible to assess the impact of these decisions, and the Regional Public Accounts provide us with an excellent opportunity in this regard.

I will again use Sardinia as an example. If we were to make a simple table to look at per capita expenditure by sector for the region, we would immediately see some fairly interesting, and perhaps even helpful, things. For example, Sardinia is a region in which student dropout rates are very high and education levels are among the lowest in Italy. Given this clear “educational emergency” and all the rhetoric surrounding the Lisbon strategy, Sardinia continues to spend the same, per capita, as the national average, thereby demonstrating its inability to invest intelligently to close such a clear and

harmful deficit. A similar situation can be seen in research and development spending, where Sardinia spends half that of the rest of Italy on a per capita basis.

Obviously enough, the data also shows us the sectors in which Sardinia has chosen to spend more than the national average. Take, for example, spending in the water-services sector and the environment generally, where spending is ten times the national average. And even more interesting for those who analyse the role the public sector plays in development, spending on job creation, which is much higher than in the rest of Italy, has evidently had an insignificant impact on trends in jobs and unemployment rates.¹²

In short, we can do some interesting things with this data to assess the effectiveness of local decision-making, and this can have a significant impact on policy debate. It will probably take a few years, but given this sort of data, even the most inattentive politicians will have to take notice. If you talk about Lisbon and education and then you discover that you're spending very little in this area, but that you're spending a great deal on policies that appear ineffective, it becomes less difficult to create effective, virtuous pressure on policymakers.

Finally, I would like to make a suggestion for a future study. Today, debate on economic disparities focuses on the issue of institutional quality. Institutional quality is a complicated concept to include in economic models. We risk stopping with Putnam and the explanation that Emilia Romagna is wealthy because it has a history of "civicness", while Calabria is poor for the same reason, and it will necessarily take centuries for things to change. I do not know how to move beyond Putnam, but I do know that studying the institutions and their role in development is essential. Can this data help us? Maybe so.

First of all, we can try to find an answer to the following question: What do we mean by "institution" from the point of view of economic performance? Is an institution that does its job well an institution that, above all, spends more on infrastructure than on transfers to businesses, or on education rather than on ineffective labour policies, compared with other regions? Do we have model of a good institution that implies virtuous spending decisions for each sector? Friedman would have said, "A good institution is an institution that spends about 15-20 per cent of GDP and that focuses

¹² A chart based on RPA data would show that developments in labour spending through 2000 were broadly in line with the rest of Italy, increasing after that year to more than six or seven times the Italian average. If we were to overlay this chart on one that measures the results, e.g. the employment rate, we would see absolutely no related improvement.

on the core functions of the public sector. Everything else is to be done by the private sector.” In other words, according to his vision, there is a clear, specific model. More generally, perhaps we should ask ourselves, “Is a good institution defined, and definable, by easily observable allocation decisions?” If we do a good job of cross-region quantification, compared with the wealth of cross-country studies in international literature over the last fifteen years, it is not out of the question that we would find a certain systematic relationship between allocation decisions and economic performance. This may be a study that could be pursued with RPA data. If the hypothesis that I have described were to be confirmed by the data (i.e. if institutional quality were, at least in part and to some small but measurable degree, reflected in allocation decisions), the issue of policymaking would become a bit simpler than the view *à la* Putnam: the regions that lag behind could benefit from knowing about and adopting expenditure models that have been shown to be the most effective (or, in other words, less naïve, and it might be a bit more difficult to lobby for interests that harm development).

Of course, it could be that allocation decisions do not point to any systematic correlation with economic performance, because it is not unlikely that the real difference in institutional quality lies in the manner in which expenditure planning is designed, more than in sector-related aspects. Whatever the case, what I am suggesting is that, through such a process, the RPAs could help us to better understand the terms of the problem of institutional quality in economic development.

In conclusion, as a former councillor of an Italian region, I believe that the RPAs lend a great deal more transparency to State-Regional negotiations than we had in the past. Indeed, data such as that of the Regional Public Accounts is essential to ensuring that the rules of engagement between national and regional government are not undermined by an excess of political discretion, which at any given time may favour region A or region B.

If you look at the special-statute regions, you will find situations that have no reasonable justification based on fact, such as the standard costs for the provision of essential services. In all likelihood, the explanation of those numbers can be found precisely in the excessive political discretion which has characterised the allocation of resources to the various regions. At a time when we stand poised to inaugurate a serious form of fiscal federalism, the RPAs are likely to be a necessary albeit not sufficient condition for success.

II.5 Carlo Sappino – Head of the Department for Development Policies (DPS)

More than conclusions, what I would like to present now are very brief considerations at the end of a constructive day of discussion, both from our speakers and all those involved in the debate. These brief comments come from the point of view of a government department. This morning's discussion have highlighted how the Regional Public Accounts have reached an excellent level of maturity in terms of both internal construction and the validity of the data, but that we now need to make a leap forward, particularly in the use that a government entity could make of this information. The issues that have arisen during the discussion have certainly helped us to understand the long, hard effort that lies behind the Regional Public Accounts, which have taken more than ten years to reach their present level of development.

The RPAs are a unique tool in terms of the contribution they make to evaluating public spending by region and because they are the only official source of detailed information on the expenditure of local public enterprises. They are also a part of SISTAN, so they benefit from the quality of this national statistics system.

Our speakers today have cautioned us on using this data. Of course, the Regional Public Accounts are not able to meet all the needs of policy support or, in particular, the development and cohesion needs addressed by the Department, but they can certainly tell us a lot about how and where funds have been spent and, as mentioned by Prof. Pigliaru, can also be used a tool in assessing the institutional capacity of government bodies. However, we must also remember that the RPAs alone are unable to provide us with any indication of policy results or effectiveness.

Another important issue that has been raised by our speakers today is that the project is an example of excellence in administration. I say this because I know that I won't be accused of presumption, given that my contribution to the design and creation of the Regional Public Accounts has been essentially nil. I entered the picture less than a year ago, so my contribution in this regard has been minimal. The other speakers here with me today are certainly more deserving of praise, given that they have made a contribution in a variety of ways to creating this accounts. I would also express my particular appreciation for Fabrizio Barca, who has believed in this project for years, developed it, and made it an important tool for decision-making and the policies that the Department is responsible for. In addition to more senior management, however, I

would also like to acknowledge the many people who have worked on such an important project under the determined guidance of Mariella Volpe.

In my opinion, there were essentially three keys to the success of the project, as was also made fairly clear here this morning. First of all, the information on the public finances at the regional level, not generic knowledge but rather information rooted in the precise context of development and cohesion policy, met the essential information needs of the Department's policies. Second, the need to meet the additionality requirements for the Structural Funds within EU programmes boosted the motivation and cohesion in creating the system, so much so that in the latest National Strategic Reference Framework the Regional Public Accounts are used extensively, and not only to determine compliance with additionality. Third, the effectiveness of the federal structure adopted, although I would prefer to call it cooperation between the central government body and the network of Regional Teams. The strength and success of the tool is certainly based on this cooperative model.

Another factor that has been discussed at great length, but which I would like to reiterate here, is that the system of the Regional Public Accounts has a special attraction, most likely because it gives Italy a somewhat overturned image compared with the views most commonly held by the public and decision-makers. The strength and conciseness of the data bring us closer to certain key issues that are the basis of the Department's functions and objectives in particular, but also those of the Ministry for Economic Development as a whole.

I would also like to reiterate two issues that appear amenable to solution if dealt with using this data, which legitimates an important theme in government policy and action. The first outcome of the analysis of the Regional Public Accounts tells us that public spending in southern Italy, as a percentage of the national total, is still slightly greater than the gross domestic product generated by the area, but is significantly less based on population. Per capita public spending in the South is approximately 42 per cent less than in central and northern Italy, and this trend is essentially due to two factors: on the one hand, current spending in central and northern Italy is much higher in per capita terms than in the South; and on the other, the trend in capital expenditure for the regions in this part of the country is less than optimal. In 2004 and 2005, per capita capital expenditure in the South actually decreased as compared with central and northern Italy. This figure supports specific policies and actions in addressing the issue

of rebalancing, which, to a certain extent, is at the heart of the responsibilities of this Department.

The second issue that the Regional Public Accounts underscore with great rigour is the following: why has capital expenditure in southern Italy not risen to the level of the policy targets? Here, we could come up with all sorts of complicated reasons, but I suspect there isn't just one answer.

One factor, for example, is certainly important to note, and that is the ratio of EU funding to additional national funding and the real crowding-out effect that EU policies have on national additional policies. This means that government bodies, and regional entities in particular, focus their human resources and organisation more on using EU funds than on spending from the Fund for Under-utilised Areas. I would like to recall that use of this fund is not great, given that expenditure levels for the 2000-2006 program are at 23 per cent of the resources appropriated.

In addition to this aspect, the factor that stands out most sharply in the Regional Public Accounts is the role played by the non-general-government sector, which is comprised of large enterprises such as Rete Ferroviaria Italiana, in determining the total amount of capital expenditure in the South. This is a fundamental issue. The spending of a large part of these entities is, to varying degrees, far from the target of allocating 45 per cent of capital spending to southern Italy.

These may seem like academic considerations, but they are, in fact, analyses that directly support the operating decisions of general government, for example those in recent weeks concerning the 2007-2013 programming cycle. Allow me to give one very recent example to emphasise the strength that the RPAs can give to the creation of a policy model and how much they can contribute to underscoring the contradictions that we sometimes risk entangling ourselves in. The Networks and Mobility NOP for 2007-2013 is financed in the significant amount of some €14 billion for the entire period, with a clear policy imperative to invest in the railway infrastructure and logistics system. However, despite these ample financial resources, there are a series of difficulties in achieving adequate planning capacity. It is, in fact, a system that, as shown by the RPA data on Ferrovie dello Stato, runs up against market demands that are not consistent with the needs of regional equilibration policies. This information offers a variety of important considerations in terms of national policy.

The risk that I see in our discussion here this morning and in the many discussions that I have had about the Regional Public Accounts this year with others in the Department is that the debate could be taking place within a context of essential indifference on the part of policymakers. There is a clear risk that these analyses and assessments will be unable to forge an effective dialogue with politicians, and thus dissipate their strength.

In many of the areas where I have direct responsibility, as head of the Department for Development Policies, I pay constant attention to the use of the Regional Public Accounts. I would like to emphasise how, for example, these accounts have played a decisive role in the assessment of the additionality of resources for the 2007-2013 NSRF. This is certainly an important aspect, but it is still not enough to ensure that this data becomes an essential part of the process of evaluating regional policy.

I am thinking of two things in particular for which, thus far, I do not have detailed information to report, but which certainly have the potential for further development. One is the need to refine the tool, in order to enhance its ability to provide information for current policymaking. I am thinking, for example, of fiscal policy, the role of which will certainly be more important in the future. In particular, we are seeing a profound reformation of policies related to business aid and the introduction of more automatic mechanisms. The Regional Public Accounts need to be able to take account of these changes and quantify the volume of public expenditure for incentives that is not allocated to specific budget appropriations. This is likely already possible, but it is essential to be sure before the reforms move ahead, just as we need to begin thinking about the broader issue of accounting records. If accounting systems are unable to record certain data, it becomes difficult to assess mechanisms that are merely fiscal, which are increasingly used in the process of regional rebalancing and which do not envisage a specific budget appropriation, but are only measurable as a decrease in revenues.

The second point regards the need to proceduralise the use of the Regional Public Accounts, ratifying this use in legislation.

I would like to describe a personal experience of mine that may provide some insight as to how to address the issue of proceduralisation. I am thinking, in particular, of the latter half of the 1990s, a period in which the RPAs were being developed and in which the question was being asked as to how to proceduralise, in structured stages, the evaluation and analysis of incentives, as well as the potential decision to refinance them.

A law was approved that envisaged the preparation of an annual study to be attached to the Economic and Financial Planning Document, which introduced more flexible financial management tools and which undoubtedly improved the information-gathering capacity of both government and policymakers.

I believe that we could attempt a similar thing with the Regional Public Accounts, of course with the necessary adjustments for the contextual differences. You are familiar with the legislation and know that they contain an explanatory report that does not give specifics, a financial report that essentially provides a coverage index without any estimate of the regional effect of the initiatives undertaken with public resources. This is an important issue that goes beyond the situation we are discussing here today and is one that we could discuss in the weeks and months to come. It is a separate issue that requires a great deal of thought. Government could be required to accompany legislation with an assessment of the regional effects of public expenditure initiatives. This issue has its own abstract value, but it is even more important in a world that is moving towards fiscal federalism and in which the financial equilibrium connected with such a federal model requires more information on the regional distribution of public spending.

I would like to conclude with a personal commitment on behalf of the Ministry of Economic Development and myself to continue investing in the Regional Public Accounts, beginning with sound, routine administration, which inevitably assumes that its activities will be funded and that the State will appropriate sufficient ordinary resources for this purpose.

III. Other contributions

III.1 Giovanni D'Amico – Councillor for the Budget, Region of Abruzzo

My contribution, as a politician involved in the Abruzzo regional government, will begin with a description of the structure of our RPA Regional Team, which was completely renovated in 2002 and is a part of the special unit that supports the management control process. The team is lead by Filomena Ibello, director of the Presidential Affairs office, and directly gathers the data on the economic and financial accounts of all of the local entities concerned in accordance with the procedures defined for the Regional Public Accounts. This currently involves 127 entities, whereas ten years ago the Abruzzo region only had 15.

The work done by the RPA Regional Team is of great interest, in that the consolidated accounts for the region are an essential tool for the regional offices to communicate internally and with the outside world. The performance reserve incentives that have been allocated to the various regional entities working on the RPA network have, in the case of my region, been reinvested as incentives for further development of the Regional Public Accounts system and the Regional Team itself. It is clear how this team is part of a more general framework of rationalisation and quality enhancement of the various decision-making processes in regional planning, which, in turn, looks to national planning.

I was very interested to hear this morning's presentations. In particular, I believe that here today we are discussing the development of public institutions in Italy in a much more concrete manner. Ms. Volpe's presentation focused on the principles underlying the Regional Public Accounts, a data-gathering system that generates and disseminates statistics on the public sector based on the principles of transparency and measurability. However, it remains the responsibility of the institutions to define prospects and strategies for development. All too often we see a certain fragility in our institutions, which fail to base their decisions on reliable statistics. This is an area of considerable immaturity, as shown by the example presented by Ms. Salvemini, which pointed to the difficulties encountered in 1994, a period in which data was being gathered on long-term policies that had never been assessed in quantitative terms (e.g. Objective 1 - Law 64/1986). In the case of Abruzzo, I am convinced that our regional database will become stronger in the months and years to come until it becomes the basis for planning and for strategy and development policy.

We are attempting to create a system of participation, measurement and planning of policy and the regional budget. Not only targeted policies, but also a social report based on a system of strategic relationships. A report that can be socially assessed and based on objective data such as that of the Regional Public Accounts, a true public good.

With the availability of historical consolidated data on current and capital expenditure levels, we can eliminate an important contradiction in our procedures, because it is possible to reconstruct the connection between planning and budget policy and thereby remove the divide between the acquisition of funding and actual planning strategies. Today, we risk experiencing the paradox of budgets without numbers and planning strategies that are out of touch with reality. It is clear that a strong base of transparent, high-quality statistics can remove this profound shortcoming of our elective assemblies, a shortcoming that negates the consistency and constancy of our institutional structures, indispensable characteristics for planning and budget policies. Within this framework of reorientation and revision of the general conduct of policymakers and institutions, a database like the Regional Public Accounts, deeply rooted in the Italian administrative fabric, can be a real asset to our institutions.

A number of other considerations came to mind when reading the tables and the data for the broader public sector. We have a defective system of management that reduces real competitiveness. The data should prompt reconsideration of certain systems, such as the waste disposal crisis that is a regular feature of our newspapers' front pages. In the area of public shareholdings, which are often held through private entities, degraded objectives are being set for consistent planning and adequate competitiveness.

Finally, we have addressed the issue of federalism. I believe that Italy should exploit the database we currently have at our disposal, because we have been working towards fiscal federalism without an overall simulation of the potential dynamics that could be triggered by the Government's bill.

At times, the regions have acted with a great deal of discretionary power, which inevitably creates significant disparities. The data that Prof. Macciotta presented are an example of this. When drafting the implementing decrees for fiscal federalism, I believe that government departments will also need to use the Regional Public Accounts in addition to other correlated systems. It is essential to base decisions on transparent, high-quality data, rather than on discretionary policy power. Otherwise, we risk to create profound discrepancies in defining the framework of standard costs and service levels.

In that regard, a number of important documents established a role, such as the Economic and Financial Planning Document. However, theoretical premises requires consolidated practices, and those of the Regional Public Accounts could prove to be extremely useful. The document that the regional presidents sent to the Ministry for the Economy and Finance for the establishment of a pact for the enhancement and rationalisation of expenditure also expresses the need to create a system of relations between all levels of government in order to reduce operating costs in favour of investment and development. However, none of this will take place if it is not based on an effective analysis of existing trends and dynamics that considers all of the technical details mentioned here today. Thus, a system of clear, transparent and reliable statistics can obviously contribute to reducing the level of discretionary powers in policymaking.

I believe that we can make an effort in these various types of activities to establish new, high-quality institutional practices in order to reduce the distance that is frequently found between the various elective assemblies and the system of social responsibility in terms of the consistency of institutional policy.

III.2 Angela Nicolace – RPA Regional Team, Region of Calabria

My contribution is inspired by Ms. Volpe’s remarks about the use of statistics as a public good. I would like to underscore the importance of the role played by the generators of the data, who are all gathered here today, as well as by the users of the data in analysis and planning. Therefore, I feel I should emphasise the importance of the work done by all of the Regional Teams that make up the network that helps to create the individual regional accounts and that makes it possible to collect all of the data on both general government and the public sector at the local level, which includes all the dependent entities, the enterprises owned by the regions, the chambers of commerce, the tourist boards, the reclamation consortia and the municipal enterprises.

What I would particularly like to highlight is the work done by the Calabria team, which, in these last two years, has managed to recover all the data from the accounts from previous years, years that were characterised by difficulties in internal organisation, both for general government and for non-general government. I feel that my contribution here today can help us understand the actual significance of participating in a project based on a federated network. In the beginning, my region was a “hole” in the network, a team in trouble, so I think that the story of how our difficulties were faced and

overcome, and of the routine and extraordinary efforts that were involved, can provide motivation for other teams, as well as for anyone wishing to fully understand the cooperative nature of this project.

Indeed, the failure to gather data in the past meant that the Calabria region, despite the work done by the new Regional Team, did not qualify for the full performance reserve award for 2005. Today, these difficulties have been overcome and the gap between us and other teams of the RPA network has now been closed. The Calabria Regional Team has met all of the project's deadlines for the submission of information for the current data period and has also updated all of the missing data for past periods.

In particular, the following have been updated:

1. the elementary identifying details for individual entities needed to distinguish the various individual statistical units;
2. the elementary financial data classified in accordance with the RPA methodology.

As required by RPA methodologies, revenue and expenditure flows at the regional level have been reconstructed for each entity belonging to the public sector based on their final accounts. The individual transactions have been recognised on a cash basis, meaning that the financial data has been recorded based on the date on which payments and collections actually took place.

Considering that a significant number of the entities concerned prepare their accounts on the basis of corporate financial reporting standards, it was necessary to make the transition from accruals-basis accounting to cash-basis accounting. Therefore, the timing of the accounting entries for the enterprises included in the RPAs, which were recognised on an accruals basis, was transposed to the moment in which the cash flow actually occurred.

The other key objective that Calabria set for itself, in addition to updating the data, was that of broadening the universe considered. Whereas the entities directly surveyed by the RPA team for my region once numbered just 20, today we track 93 different administrative entities.

Thus, after defining the reference universe and gathering all of the documentation to be used to create the consolidated account, we established criteria for classifying the flows

in the accounts of the individual entities, attributing them to the various categories and sectors established for the RPAs.

The various revenue and expense items were reallocated to a uniform classification.

However, when compiling the accounts, certain differences with respect to theoretical definitions are always possible. Therefore, in order to adjust the data, it was frequently necessary to turn to the notes to the financial statements in order to understand, assess and extrapolate the data in the most appropriate manner for the needs of the RPAs.

In public financial analysis, for example, it is very important to determine the source of the funding of individual expenditure flows, i.e. to understand whether the source of funding is ordinary or extraordinary/additional.

In order to overcome all of these difficulties and to close the gap between us and the rest of the RPA network, the support received from the Central Team, which kept us constantly updated and informed of all deadlines, was also extremely important. In that regard, I would like to underscore how helpful the automated communication system currently available for the RPA teams has been. This e-mail system within the RPA system enables us to send messages to all of the other users on the network, which helps us to exchange information, opinions and questions about the system itself. I would particularly like to thank Ms. Volpe for her support and encouragement in dealing with the enormous task of gathering all this data.

It is also important to point out that access to the RPA information system is important both because it provides all of the elementary data on one's own region, as well as because it shows all of the deadlines related to the process of generating RPA data. All of the general identifying information and financial data therefore constitute an effective tool for supporting regional and national planning and analysis.

In order for the consolidated account to be used both in decision-making and planning, as well as in sectoral analysis, it is necessary to set up a system of recording and processing expenditure flow data that takes account of the purposes of such spending. Thus, it is essential for the consolidated account to be based on a sectoral classification system that enables the accurate representation of all sectors of public action.

The *Guide* to the Regional Public Accounts includes a table with the detailed sectoral classification to be used when gathering the elementary data as well as a description, by sector, of the expenditures to be included in each sector. It is therefore an extremely

important tool for anyone who needs to gather and properly interpret accounting data on a regular basis. Having a detailed description of all of the coding and classification standards adopted, as well as reconciliations with the various national and international accounting systems, is of invaluable assistance in the daily routine of the RPA teams. This is very important when extrapolating data from the final accounts in particular.

The Region of Calabria will soon be using the data available to prepare a region-specific report that reconstructs the state of the public finances for the region. As a complement to the creation of this regional document, a conference will also be organised to present the work to the various actors involved. The conference will also be an opportunity to highlight the great potential of the database as a means of supporting regional planning and regional and sector analysis.

III.3 Alessandra Staderini – the Bank of Italy¹³

In these brief remarks, I would like to present the Bank of Italy's experience as a user of the Regional Public Accounts (RPAs) a testimonial to the value of the work done by the Department for Development Policies to create this database. I will be speaking about my experience as the coordinator of a project that, as Mariella Volpe has already mentioned, led to the inclusion of a chapter dedicated to the decentralised public finances in the reports published by the Bank of Italy concerning the economies of the various regions of Italy.

The decision to start systematically publishing data on decentralised public finances was prompted by the importance of taxpayer access to this type of information. As such, I would like to take a different approach than the speakers before me, who have primarily focused on the point of view of policymakers. Public finance information is important not only for policymakers to make informed decisions, but also for taxpayers, particularly in the case of local public finances. A lack of information reduces taxpayers' power to monitor, which is one of the theoretical assumptions underlying expectations of efficiency gains from decentralisation. This becomes of even greater importance in light of the decentralisation process that began in Italy in the 1990s. Within this new institutional context, it is important to give taxpayers access to information on the financial flows managed by local elected officials.

¹³ The slides for the presentation are included in Appendix IV.2

When beginning the project to publish regional public finance data, the first challenge that the Bank of Italy faced, and which anyone dealing with local public finances in Italy needs to face, was the lack of information on decentralised entities.

The support of the RPA database was of primary importance in this regard. I am exaggerating when I say that we wouldn't have been able to publish a chapter on regional flows of public finance without this database.

The RPAs enabled us to answer certain basic questions that should be the starting point for anyone who wants to talk about the public finances in their region, namely: How much public expenditure is attributable to the region? How much of this spending is managed by local government (considering the aggregate for the three levels local government: regions, provinces and municipalities)? What share is the responsibility of local public officials? How does my region compare with other regions (either ordinary or special statute) or with the national average?

These are simple questions, but the answers are not so well known, as Prof. Pigliaru noted during his presentation. Indeed, the publication of the RPA data in our regional reports was met with a great deal of interest regionally, interest that was, in many cases, echoed in the local press.

Again, the RPA database was essential in answering these questions. Two factors in particular make the database unique and the efforts of the Department of such great value: 1) it consolidates the accounts of all entities in a given region, thereby making it possible to create an account for the "decentralised public operator" in each region; and 2) in this reconstruction, it provides consistency in the handling of information, thereby making it possible to make comparisons between regions. On this last point, I would like to underscore that the main purpose of the chapter we publish on public finances was precisely to enable taxpayers in each region to compare their region with the others. The RPAs made it possible to take a major step forward in the dissemination of information on local public finances.

I would like to close by expressing my sincere gratitude to Mariella Volpe and her collaborators for how extremely helpful they've been over these months by being so swift in providing us with everything we have asked for.

III.4 Elide Marelli – RPA Regional Team, Region of Lombardy

I would like to offer a number of comments on the value of the *Guide* to the generators of the data, as well as some considerations for the future. For the Regional Teams, the *Guide* is, without doubt, a means of comprehensively reconstructing the objectives, methods and choices underlying the RPA project, as well as a highly useful tool that makes it possible to achieve quality, timeliness, completeness and a full reconstruction of data on public financial flows in a manner agreed by all. The *Guide*, which fully details the methodology to be followed, is indispensable to data generators as a means of professional training for existing members of the team or for those who join the team as the project continues. When knowledge becomes a transferable asset, it is easier to ensure continuity in the gathering of data at the territorial level.

It is difficult not to think of the more than ten years in which, during the various joint meetings of the entire network, we clarified the concept of non-general government, of sectors of public expenditure and economic classifications, or how, over time, the rules were extrapolated, with the help of the Central Team, from individual cases to being agreed, adopted and, now, fully defined in the *Guide*.

Another key step has been the inclusion of the database in SISTAN. This aspect, which was clarified in the *Guide*, also facilitated much of the work of the teams as data generators in that, with the clarification of how the data could be disseminated, it accelerated requests for information from sub-regional entities and, as a result, fostered collaboration with local public enterprises.

Of course, a key strength of the *Guide* is that it defines the economic, sectoral and functional classification criteria, as well as the more complex process of reconciling cash-basis and accruals-basis accounting data (with cash flows representing the elementary data).

In terms of the method of consolidating the accounts, the *Guide* has been useful to the individual Regional Teams, but it is also a helpful tool for the region in providing greater detail in its own consolidated accounts: the methodology is an asset to all and can be transferred with a certain confidence to work at a more detailed, specific level.

Obviously, there is also room for improvement, from the consolidation of revenues to the detailed use of regional data. These aspects are to be improved in order to be able to calculate the balances we discussed earlier.

As concerns the region-specific reports, it is important to underscore the importance of the proposal of the Central Team, which is fully supported by the Regional Teams, given that these reports represent a shift from the role of data generator to data user, leveraging the database even further.

III.5 Maria Silvestrelli – National Research Council (CNR)¹⁴

I would like to briefly share my experience as a provider of information for the Regional Public Account (RPA) database. The Public Investment Evaluation Unit (UVAL) within the Department for Development Policies asks the CNR to provide a comprehensive set of data each year for this database, the largest part of which concerns the regional distribution of final expenditure and revenue data for the previous year. The data is provided by the Statistics unit of CNR's Information Systems office, the area that also develops systems to meet the information needs of bodies both inside and outside of CNR itself. The Information Systems office is currently developing a data warehousing system in order to provide direct access to reliable data that can be organised autonomously in a variety of ways by the various categories of user.

Until 2006, the process of generating the information requested by the Department for Development Policies involved a series of steps that required data to be extracted from the operational database supporting the organisation's accounting system. This included:

- identifying the cash-basis balances for each chapter and for each accounting document, as well as the geographical location of the recipient of expenditure and the source of revenues;
- verifying the final annual figures for revenues and expenditure;
- performing the initial regional allocation of the information gathered;
- making any necessary corrections or estimates;
- preparing the final aggregates for the 19 regions and two autonomous provinces.

This process had two main weaknesses:

- the need to use final figures for the entity could cause delays in delivering the data tables;

¹⁴ The slides for the presentation are included in Appendix IV.3

- the use of databases that support operations does not always provide sufficiently complete information. Although databases used in accounting are an invaluable source of information, they are not an archival system designed to provide detailed information that can be aggregated in a variety of ways depending on analytical requirements. Even though we were able to allocate a large share of data (more than 90 per cent in most cases) to the various regions, there was always a portion that could not be properly allocated and which required partial estimates and/or the use of interpretation criteria for the elementary data that could change over time.

The data distributed needs to be based on an appropriate data recording system free of the limitations imposed by structures designed for different applications, and this is the direction the Information Systems office took in 2006 with a project to create a data warehouse that internal and external users could use, accessing the data of interest to them directly and quickly.

In other words, the approach was turned on its head. Rather than separating out consolidated information using data recorded in databases designed for other users and then seeking to fill any gaps, rules to extract and transform the elementary data were developed – with the advice of the heads of the various operational systems – so that the same data can be used to create a database for querying, aggregating and analysing data that can be used online by users.

Such a system also provides another benefit: it also supports queries of the elementary data using keys independent of the original source, i.e. reconciling different systems without overloading the operational databases and their related applications.

An example of a reconciliation tool that can accurately translate data from source to target is the matrix defined with the help of the RPA Central Team between the RPA codes and the codes used by the CNR for the individual revenue and expense accounts. Using the SIOPE codes associated with each final revenue and expense account, we were able to identify the proper RPA code. In certain cases, the account-SIOPE code association was enough, while in other cases, the RPA code was determined by taking the CNR item, SIOPE code and recipient type (for expenditure) or the CNR item, SIOPE code and source type (for revenues).

Once the code conversion matrix is defined and incorporated into the data warehouse system, the generation of data allocated in accordance with the needs of the Department

for Development Polices should no longer be a problem, and the system will be able to ensure the quality and timeliness of the data. When the system is fully operational, it will be sufficient to periodically conduct a joint updating of the conversion matrices for the economic classifications of revenue and expenditure items in order to ensure the high statistical quality of the time series generated.

III.6 Elvira Pisani – RPA Regional Team, Region of Tuscany

I would like to describe the experience of a region which has been investing heavily in information systems.

Tuscany undertook a sweeping administrative decentralisation following the enactment of the “Bassanini” laws and has, traditionally, always placed a great deal of importance on the role of local entities. It is a region that has always emphasised planning, and on concertation with local government entities in particular. Such an approach has revealed the importance of effective information systems to support policy decisions, as well as systems agreed by all those involved in concertation and who take part in the decision-making process.

Tuscany has been involved with the Regional Public Accounts project from the beginning, while at the same time developing the SIFAL information system (*Sistema Informativo sulla Finanza delle Autonomie Locali* – Information System for Local Authority Finances) to gather all accounting and operational data from the public entities operating throughout the region. SIFAL records the final accounting and personnel data from the entities in the region, including enterprises owned by the region, the chambers of commerce, universities and local health authorities, with a particular focus on local governments, which also provide their budgets and planning reports.

All of this has been done in order to promote the use of information in making decisions and developing strategies, not just at the regional level, but also at the local level. Local authorities are key participants in SIFAL and receive a wealth of information from the system both through the publication of their own data and of indicators that make it possible to compare performance among the various entities.

The regional accounting law of 2001 formally acknowledged the utility of this work and that of the consolidation of expenditure by the broader public sector. Article 5 of this

law specifically concerns the consolidation of expenditure and the monitoring of the public finances and requires the regional government to establish reporting flows to be used in preparing an overview of public expenditure to be provided to the State and used in the region's own policy decisions. It also establishes that the region's economic and financial planning document should include a report based on this information. Accordingly, this important financial policy document is accompanied by a report on expenditure by the public sector, which includes an analysis of the ratio of expenditure to GDP, developments in the elements of which it is composed, particularly investment spending, the contribution of the various territorial segments to the total, and a breakdown by sectors of intervention. Through this report, the data that we collect for the Regional Public Accounts are then used in the discussion of the annual economic and financial planning document.

This year, on an experimental basis, we have also prepared another report on the expenditure of the regional "holding company"¹⁵, which was attached to the regional accounting report and was very well received by the State Audit Court as part of the 2006 report on operational developments. Beginning with the data gathered for the Regional Public Accounts, the report analysed the consolidated expenditure of this group of entities, as well as developments by sector of intervention and category of entity. This initial experiment will surely be developed further in the years to come.

The data on public-sector expenditure also feed the value-added/employment matrix prepared by Tuscany's Regional Institute for Economic Planning, which supports the analyses that precede the preparation of the region's development plan.

In 2003, for example, a study was conducted to quantify the funds to be transferred to local authorities in accordance with Title V of the Italian Constitution, and work continues with the local authorities to use all of the information gathered over the years to assess the design of fiscal federalism and, above all, to implement it.

Thanks to this close cooperation with local authorities, the Tuscany region recently signed an agreement with ANCI, UNCEM, and URPT¹⁶ for the management of their

¹⁵ I.e. the regional government, its dependent entities, companies owned by the region and local health authorities.

¹⁶ I.e. Associazione Nazionale Comuni Italiani (ANCI – National Association of Italian Municipalities), Unione Nazionale Comuni, Comunità e Enti Montani (UNCEM – National Union of Mountain

databases, and, first and foremost, provided all of the data in its possession concerning spending by the public sector – a move which was very much appreciated – in order to work together to integrate the planning, forecasting, and accounting databases of the various local authorities with the regional database on public sector expenditure. In particular, the aim is to use the accounting data of the local entities to feed the RPA database and, in exchange, we will provide them with the data we have on local public enterprises in order to support the preparation of the planning report. We feel that this can also help in surveying and updating the list of entities in the segment itself. We are also working on creating a web page on our SIFAL site that will provide Regional Public Account data in reports that can be viewed and queried.

III.7 RPA Central Team, Public Investment Evaluation Unit (UVAL)

First of all, we at the Central Team would like to thank everyone for the compliments you have offered us, because this *Guide*, as was mentioned at the beginning of the day, marks the completion of years of hard work to achieve a clear, shared methodology within our network, which is now available to all users of our data. The work that we have carried out thus far has been to harmonise the standards adopted within the RPA network. All of the numbers in our database are based on observable data, and no modelling has been applied to the elementary information it contains. This inevitably has an effect, for example, on the ability to calculate actual “regional balances”, an issue that has been raised by a number of the speakers here today and one which we are often required to face. The RPAs are a means of supporting policymaking, and during the last full revision of the time series, we closely evaluated the possibility of adopting standards and methods of regionalisation that could potentially enable the generation of meaningful regional balances. However, we have also had to deal with the fact that the database also meets other needs, given that the regionalisation of spending in the Regional Public Accounts must, first and foremost, provide the best possible support to policymaking. This means, for example, that we cannot apply models in the analysis of transfers of spending between public entities, or formulate estimates of regional debt in

Municipalities, Communities and Entities), Unione Regionale delle Province Toscane (URPT – Regional Union of Tuscan Provinces)

order to accurately calculate interest, which is currently based on the location of the holder of the financial instrument. All of this is part of a tool designed to provide a complete account of financial inflows and outflows for all entities within the public sector. Today, therefore, the Regional Public Accounts regionalise direct spending based on the location of the productive activity and redistributive transfers based on the location of the beneficiary.

We have also been conducting further satellite studies, related to the production of the actual database, in order, for example, to establish fiscal balances and regional balances. As part of the series of RPA studies, the study conducted by Prof. Zanardi attempted to calculate fiscal balances, net of interest and based on consolidated data, by making simple adjustments to the accounts themselves. It is probable that more needs to be done, and here we would ask for the cooperation of the entire scientific community in order to achieve this Regional Public Accounts satellite account to make it possible to establish regional balances.

The many presentations given today have also expressed appreciation for the length of the time series. However, this aspect poses the problem, the solution to which can no longer be postponed, of the need to expressing the data at constant prices, whereas it is currently published entirely at current prices. The region-specific reports that are currently being prepared will, for example, already include tables shown at constant prices, in addition to the per capita figures.

Another suggestion received during the presentation of our *Guide* that we would like to acknowledge is the need to provide greater visibility to aggregates net of interest expense, which is currently included equally along with all other current expenditure.

The cash-based nature of the RPA data should be accompanied by other information, as part of the full range of statistics on regional public finances, in order to make it easier both to construct balances (as has been done in the past by ISTAT) and, for example, to conduct accrual-based analyses. Ideally, we should have an integrated system in which the various institutions involved in public finance at the local level can meet the various needs of their users. Otherwise, we risk trying to make the Regional Public Accounts fit all needs, even those that are not suited to this data due to the nature of the survey.

Following up on the valuable suggestion of Prof. Macciotta concerning the use of the national and regional budgets, we would like to point out that, right now, we at the Regional Public Accounts are working to produce budget forecasts based on our data, so we will be able to use the national budget as a target. Studies by the Ministry for the Economy and Finance should also be available for this purpose. However, the State accounts, and the budget in particular, cannot be regionalised because they lack virtually all the characteristics needed to do so. As we have said, what we can do is try to produce regional budget forecasts based on the Regional Public Accounts using the national budget as a target. Another important suggestion, which in this case regards the Regional Teams in particular, is that of trying to coordinate the regional development plans and the budgets of each region with the *ex post* monitoring done with the RPAs. In this manner, we would be able to actually monitor the entire economic and financial process, quantifying what is being accomplished, while also measuring what is originally forecast and planned.

During the debate, we also discussed the role that the leading indicator could play. We are fully aware of the differences in the results achieved by this forecasting tool as compared with the consolidated RPA data. These are aspects that we have added, in detail, in the *Approfondimenti* section of the *Guide*, because the leading indicator is now one of the main “satellites” of the Regional Public Accounts. It is a tool to which we have dedicated energy and commitment and which has, in recent years, generated forecasts and estimates of past data in order to reduce the lag inherent in the generation of definitive data. As has been said, the database is suited to a variety of uses. Taking, for example, one of the aspects noted by Prof. Pigliaru, the great need expressed for a tool such as the leading indicator, which focuses on general government capital expenditure, the part of the budget over which policymakers have greatest discretionary control, comes from the use that is being made of these accounts in, for example, negotiations between the national and regional governments. These are areas in which the need for the most recent data is particularly strong. So we are aware of the fact that, in part, the nature of these estimates differs from the database as a whole, but we accept the approximations in this case, making estimates that seek to recover as much as possible of the information available from administrative sources with all the detail we

need. An extended working group was established to calculate the leading indicator in order to better respond to the needs of national and regional policymakers. This data is not published in its entirety, but is rather provided in percentage terms or as aggregates. However, the information is also reflected in the Economic and Financial Planning Document and other national policy documents, specifying the temporary nature of the estimates, in that they are destined to be replaced by the definitive data of the Regional Public Accounts as soon as they become available.

IV. Appendix

IV.1 Slides of the presentation – Mariella Volpe – Public Investment Evaluation Unit (DPS)



1/27

A GUIDING PRINCIPLE
Statistical information as a public good for public use

At the basis of a number of major objectives

- Policy decisions must be **evidence-based** to the greatest possible extent
- Public policy must be **transparent** and **measurable**
- Only good data can **transform** information into knowledge, also **enhancing** society's capacity for democracy



2/27

An *ex-post* reconstruction of financial flows that is as robust and transparent as possible

- to evaluate territorial distribution and its effects
- to enable ex-post monitoring of objectives

But also to

- Increase the capacities of central government policymakers
- Increase accountability at the local level
- Set well-founded and verifiable objectives

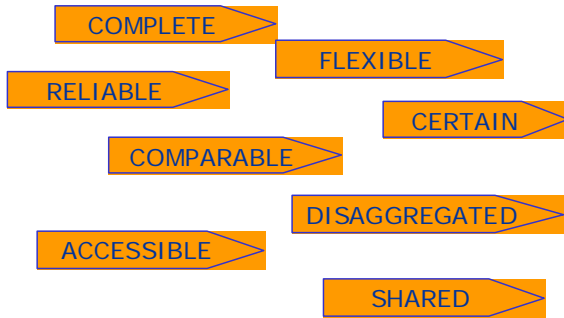
Good data
influence and guide policy



3/27

How do we develop these principles and objectives so they do not remain mere slogans?

With the production of high-quality information, i.e.



4/27

The history of the Regional Public Accounts (RPAs) is one of incremental progress towards these rules

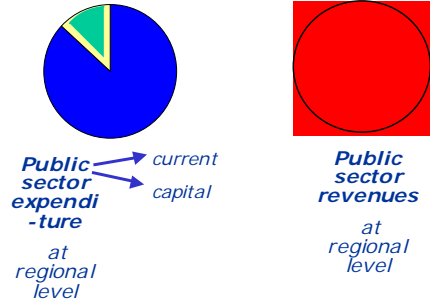
Today, these have almost been achieved



5/27

Completeness (1)

- All current capital and current expenditure at the regional level
- All revenues at the regional level
- Vast reference universe



6/27

Completeness (2)

RPA reference universe consists of a general government and non-general government entities.

		Public Sector	
		PA	Extra PA
Governance level	Central	Central public administration State Social security institutions Other central gov. entities ANAS (State Road Agency)	National public enterprises State monopolies Cassa di Risparmio di Pistoia Elettroniv Italian post office State railways Enesep Italian automobile club Ex-IRI companies ALITALIA National transmission grid operator Infrastructure development Labour policy agency Italian business abroad Water infrastructures management Nuclear infrastructures management Business development agency
	Local	Regional subordinates entities Regions Regional subordinates entities Local health auth, hospitals, research hospitals Provinces Commons Mountain communities Chambers of commerce Universities Subordinated local entities Parish auth. and entities National parks	Local public enterprises Local auth. Consortia and associations Local enterprises and institutions Companies and foundations owned by local auth.

Different data base element
Absolute monopoly concurred by the network territorial network

7/27

Flexibility and disaggregation

Just a disaggregated and finalized can support political choices



RPA start: absence of systematic information, on financial public flows at territorial level

8/27

Measuring and analysing

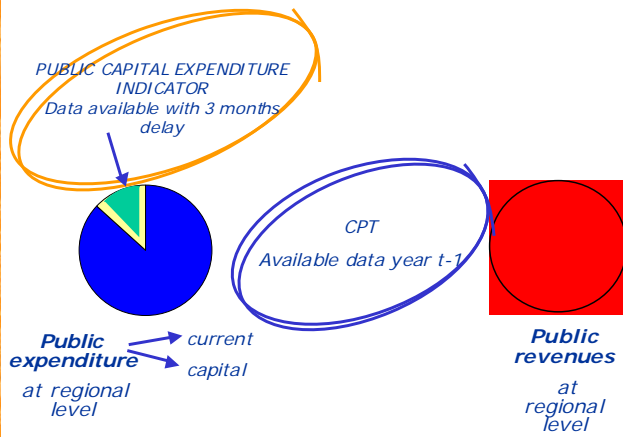
- **Reconstruction** of public financial flows with limited resource to reclassifications on direct sources
- **Balances** of analysed entities
- Reconstruction process *bottom-up*

RPA became a product of National Statistical System (SISTAN), the network of Italian public and private entities that provide official statistics.



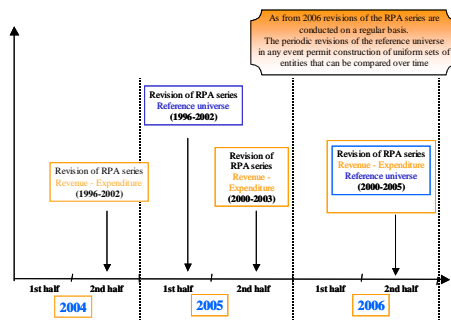
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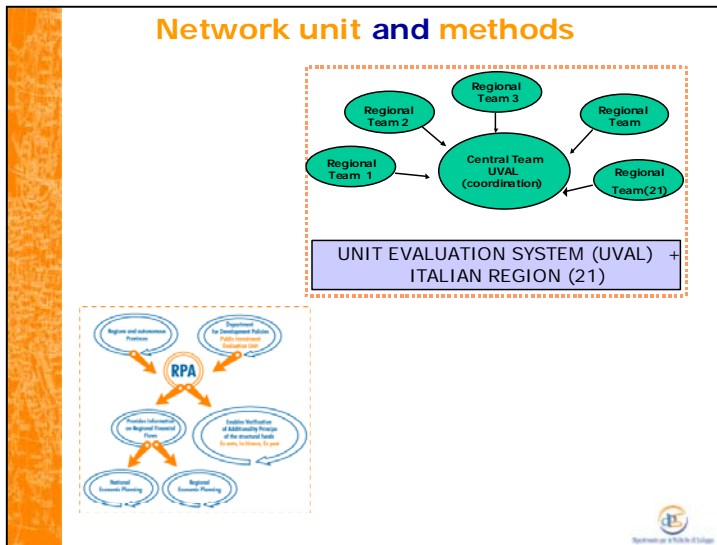


10/27

Certainty



11/27



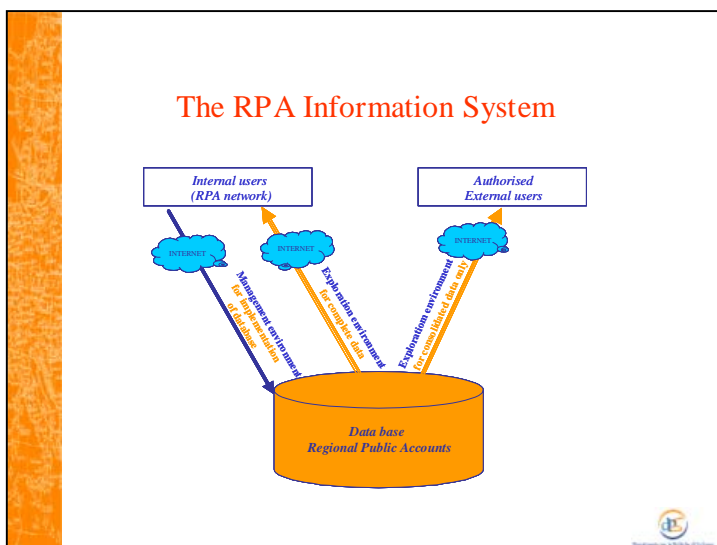
12/27

Access to data base

THE TABLES REFLECT THE RESULTS OF THE COMPLETE REVISION OF THE RPA DATABASE, available to <http://www.dps.tesoro.it/cpt>

Direct access to RPA data base for visitors will be available soon


13/27



14/27

Comparability

Analyses with other sources and national system	International Standard
<p>ISTAT National Contability</p> <p>SIOPE Informative System on Public entities operations</p> <p>RPA Sectoral Classification for other monitoring system</p>	<p>IPSAS International Public Sector Accounting Standards</p> <p>COFOG Classification of the Functions of Government</p>




15/27

Transform data into information support knowledge and policy decisions

The RPAs are now used at many points in the process to

1. Monitor development policies
2. Support policy decisions
3. Improve analysis at both the central and regional levels



16/27

Selected examples of the use of the RPAs for knowledge and support for regional policy (1)


Monographic regional RPA reports

OBJECTIVE: Provide a framework to enable comparative analysis of local public finances, with a focus on relations between regions and central government, between regions and local authorities and between local authorities and enterprises they control

Actors involved:

1. Regional Teams under supervision, guidance and coordination of Central Team
2. Central Team, which will prepare a "national" volume in order to provide overview of different territorial situations

End of project: December 2007



17/27

Selected examples of the use of the RPAs for knowledge and support for regional policy(2)

Bank of Italy – Annual Regional Reports

OBJECTIVE: describe economic trends in each of Italy's 20 regions through numerous real and financial indicators

From this year, the availability of the RPA data has made it possible to prepare, for all Italian regions, a highly interesting chapter on

THE SIZE OF REGIONAL GOVERNMENT AND ITS MAIN AREAS OF INTERVENTION

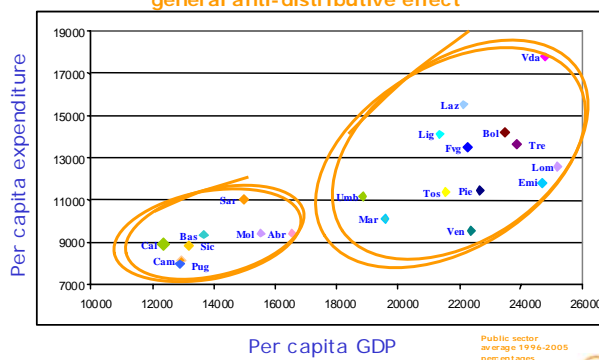
End of project: June 2007



18/27

Selected examples of the use of the RPAs for knowledge and support for central policy (1)

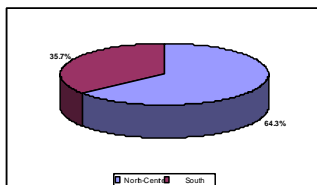
Public sector ... Continuing positive correlation between public expenditure and the level of development and a general anti-distributive effect



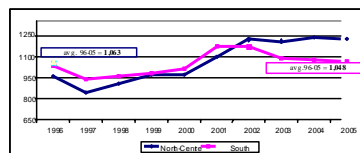
19/27

Selected examples of the use of the RPAs for knowledge and support for central policy (2)

Public sector ... the balancing role in favour of the South continued until 2001 but has decreased in recent years ...



Public sector 1996-2005 constant 1999 euros



20/27

Selected examples of the use of the RPAs for knowledge and support for central policy

(3)

Public sector ... public enterprises are still far from ensuring that the South receives a volume of resources consistent with policy objectives ...

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
ANAS	31,3%	30,6%	32,4%	37,9%	44,0%	45,9%	44,9%	42,1%	43,2%	47,1%
Ferrovie dello Stato	29,5%	31,9%	29,4%	24,6%	24,8%	22,8%	20,4%	16,7%	12,2%	14,0%
ENEL	35,6%	36,8%	37,0%	37,5%	37,4%	28,9%	28,3%	31,2%	31,4%	30,1%
GRITN	0,0%	0,0%	0,0%	16,7%	25,5%	24,3%	25,2%	25,2%	25,4%	16,2%
ENI	34,9%	34,1%	44,6%	32,7%	36,6%	29,7%	29,0%	37,0%	43,3%	40,0%
Poste Italiane	6,6%	17,4%	24,0%	5,0%	15,3%	30,9%	31,4%	31,4%	32,7%	33,6%



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Selected examples of the use of the RPAs for knowledge and support for central policy

(4)

Local public enterprises

Currently about 2,000 entities
From next year 2,800



The spending of LPEs is also highly concentrated in the Centre-North

6.6% of capital expenditure
(7.1% in Centre-North and 5.4% in South)

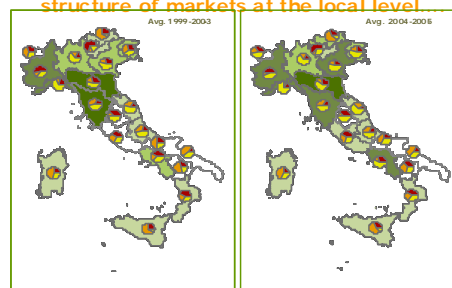


22/27

Selected examples of the use of the RPAs for knowledge and support for central policy

(5)

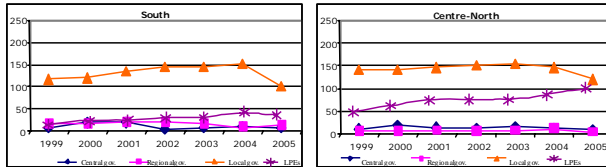
Although the financial weight of LPEs is not high, an analysis of these enterprises provides considerable insight into the structure of markets at the local level...



23/27

Selected examples of the use of the RPAs for knowledge and support for central policy (6)

Degree of decentralisation of public expenditure for the environment and waste disposal



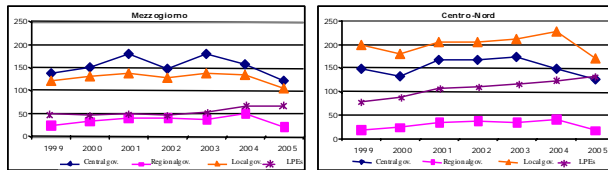
Public sector
1999-2005
constant 1999 euros per capita



24/27

Selected examples of the use of the RPAs for knowledge and support for central policy (7)

Degree of decentralisation of public expenditure for roads and other transport



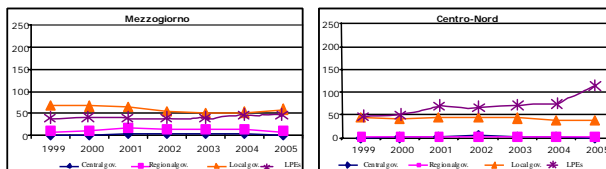
Public sector
1999-2005
constant 1999 euros per capita



25/27

Selected examples of the use of the RPAs for knowledge and support for central policy (8)

Degree of decentralisation of public expenditure for integrated water cycle



Public sector
1999-2005
constant 1999 euros per capita



26/27

New objectives

The incremental approximation approach calls for further improvements

- Meeting all of the demand from **central policymakers and analysts**

- Satellite projects
 - Sources of financing
 - Sectoral-level detail
 - Relationship between revenues and expenditures and possible regional balances


- Supporting **local policymakers** to promote more extensive use for regional programming

- Strengthen the **dissemination process**

- Further increase the visibility of the **theoretical aspects** underlying the RPAs

27/27

IV.2 Slides of the presentation – Alessandra Staderini – Bank of Italy



The use of the RPA database by the Bank of Italy

Alessandra Staderini

Rome

12 July 2007

1

1/5



Recent experience at the Bank of Italy

Reports on regional economies
published by the Bank of Italy:
A new chapter on decentralised public
finances

<http://www.bancaditalia.it/pubblicazioni/econo/ecore/note>

2

2/5

The *problem* of data on decentralised public finances

The importance of the information:

- For **policy-makers**
(=> Einaudi: "... know to decide ...")
- For **taxpayers**
(A lack of information reduces taxpayers' power to monitor their administrators, which is one of the assumptions underlying expectations of efficiency gains from decentralisation)

3

3/5

The RPA database made it possible to answer a number of important questions

- how much public expenditure is attributable to the region?
- how much of this spending is managed by **local government** (considering the aggregate for the three levels local government: regions, provinces and municipalities)
 - => importance of **consolidation of accounts**
- how does my region compare with the national average?
 - => importance of **uniformity of comparison**

4

4/5

**An example:
The size of the local public operator**


Local government expenditure/GDP

Local government expenditure per capita

5/5

IV.3 Slides of the presentation – Maria Silvestrelli – Consiglio Nazionale delle Ricerche (CNR)

From the CNR information system to the RPA information system
12 July 2007




A blue progress bar is located at the bottom of the slide, with a small icon on the left and the text 'Sistemi Informativi' on the right.

1/12

The request of the Department for Development and Cohesion Policies

For each year t

- Regional breakdown of expenditure in year t-1
- Regional breakdown of revenues in year t-1



A blue progress bar is located at the bottom of the slide, with a small icon on the left and the text 'Sistemi Informativi' on the right.

2/12


How to respond

Using the operational database supporting accounting system

Without modifying existing archives or the related applications

With a system that ensures direct access to reliable data that can be structured in a variety of ways by users

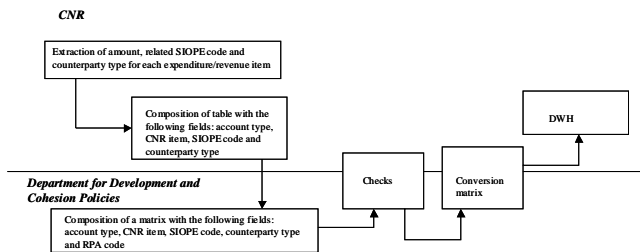
based on a number of reconciliation tools that accurately translate the information in the source environment into that in the target environment



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3/12

Definition of unambiguous correspondence between CNR items and RPA codes

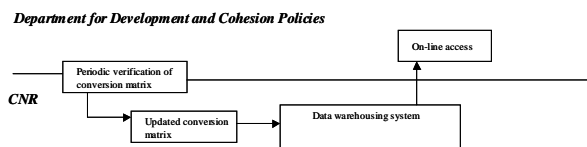


Conversion matrix

Account type	Title	Category	Subcategory	Chapter	Item	CD_SIOPE	Counter party type
S	1	1.01	1.01.01	1.01.01.001	1.01.001	1101	
S	1	1.01	1.01.01	1.01.01.002	1.01.002	1102	
S	1	1.01	1.01.01	1.01.01.003	1.01.003	1199	
S	1	1.01	1.01.01	1.01.01.005	1.01.005	1199	
S	1	1.02	1.02.01	1.02.01.051	1.01.051	1201	
E	1	1.01		1.01.001	01.01.001	1212	1
E	1	1.02		1.02.002	01.01.002	1211	1
E	1	1.02		1.02.004	01.01.004	1211	1
E	1	1.03		1.03.005	01.01.005	1211	1
E	1	1.02		1.02.006	01.01.006	1211	1

Account type	Title	Category	Subcategory	Chapter	Item	CD_SIOPE	Counter party type	COD_CPI
S	1	1.01	1.01.01	1.01.01.001	1.01.001	1101		12
S	1	1.01	1.01.01	1.01.01.002	1.01.002	1102		12
S	1	1.01	1.01.01	1.01.01.003	1.01.003	1199		12
S	1	1.01	1.01.01	1.01.01.005	1.01.005	1199		12
S	1	1.02	1.02.01	1.02.01.051	1.01.051	1201		06
E	1	1.01		1.01.001	01.01.001	1212	1	13
E	1	1.02		1.02.002	01.01.002	1211	1	13
E	1	1.02		1.02.004	01.01.004	1211	1	13
E	1	1.03		1.03.005	01.01.005	1211	1	13
E	1	1.02		1.02.006	01.01.006	1211	1	13

Direct access to information



Prior to current solution

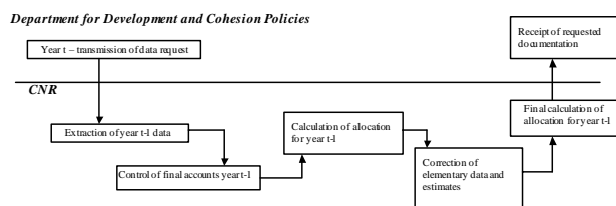
The information generation process before 2006:

- appropriate extraction from operational database supporting accounting system of data on cash-basis balances for each chapter and, for each accounting document, location of recipient of expenditure or source of revenues
- verification of the final annual figures for revenues and expenditure
- initial regional allocation of the information gathered
- any necessary corrections or estimates
- final aggregates for the 19 regions and two autonomous provinces .



7/12

Data production process prior to 2006



8/12

Weaknesses of the process

- the need to use final figures for the entity could cause delays in delivering the data tables
- the use of databases that support operations does not always provide sufficiently complete information.

Although databases used in accounting are an invaluable source of information, they are not an archival system designed to provide detailed information that can be aggregated in a variety of ways depending on analytical requirements. Even though it was possible to allocate a large share of data (more than 90% in most cases) to the various regions, there was always a portion that could not be properly allocated and which required partial estimates and/or the use of interpretation criteria for the elementary data that could change over time



9/12

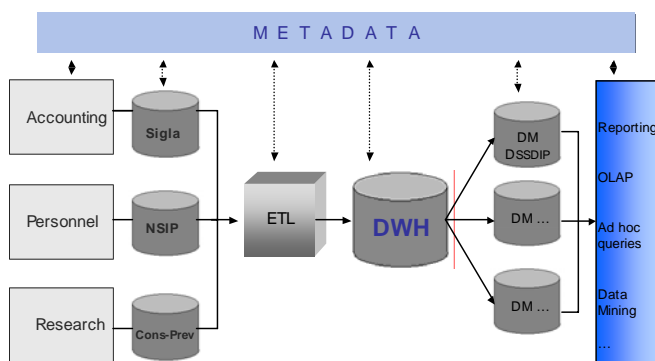
Turning the approach on its head

Rather than disaggregating consolidated information, rules to extract and transform the elementary data were developed – with the advice of the various operational systems – to create a database for querying, aggregating and analysing data that can be used online by all potential users.



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From operational data to analysis



11/12

Another benefit



The system also supports queries of the elementary data using a variety of keys without overloading the operational databases and their related applications.


One example is the conversion matrix between CNR items and RPA codes



12/12

IV.4 Posters of the presentation – RPA’s Guide

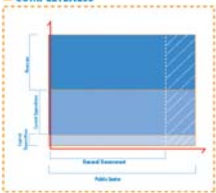






**Regional
Public
Accounts**

Consolidated accounts of the public sector at the regional level


COMPLETENESS



EXHAUSTIVE DATA



COMPREHENSIVE NETWORK



RELIABILITY & FLEXIBILITY





Final accounts of analysed entities

Database structured for all types of analysis

USE OF INTERNATIONAL STANDARD

IPSAS
International Public Sector Accounting Standards

COFOG
Classification of the Function Government

2nd World Forum on Statistics, Knowledge and Policy
Measuring and Fostering the Progress of Sustainable
Society, 17-20 June 2013

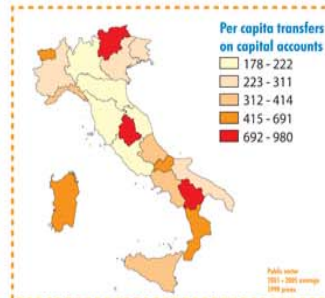
web www.dps.mi.gov.it/cpt www.dps.mi.gov.it/cpt-eng (english version)

How to explore Italy with the Regional Public Accounts

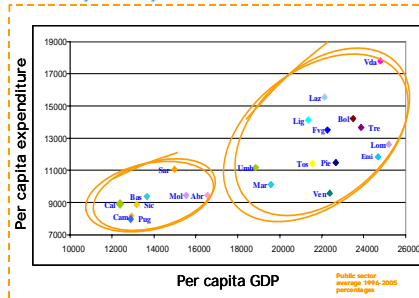
Public investments



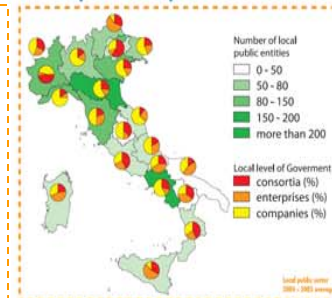
Public transfers



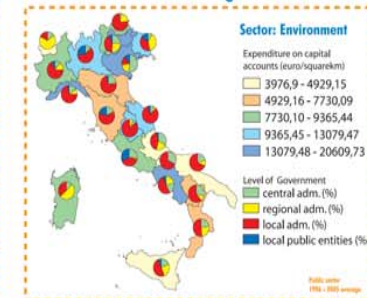
Total public expenditure and GDP



Local public enterprises



Sectoral focus: different government entities



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- *Metodi (Methods)*, which offers papers dealing with methodological issues and guidelines in all of the areas in which the Unit operates